

ADVANCED TAXATION

REVISION KIT - 2022

PASTPAPER QUESTIONS & ANSWERS



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CPA (U)

ADVANCED TAXATION (P9)

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RATES OF TAX

Resident Individuals

Chargeable income	
Not exceeding Shs 2,820,000 (Shs 235,000 pm)	Nil
Exceeding Shs 2,820,000 (Shs 235,000 pm) but not exceeding Shs 4,020,000 (Shs 335,000 pm)	10% of the amount by which chargeable income exceeds Shs 2,820,000 (Shs 235,000 pm)
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Shs 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	(a) Shs 300,000 (Shs 25,000 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

Non-resident Individuals

Chargeable income	
Not exceeding Shs 4,020,000 (Shs 335,000 pm)	10%
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 402,000 (Shs 33,500 pm) plus 20% of the amount by which chargeable income exceeds 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	(a) Shs 582,000 (Shs 48,500 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and (b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

Small Business Taxpayers

Gross Turnover		
Not exceeding Shs 10 million	NIL	NIL
Exceeding Shs 10 million but does not exceed Shs 30 million per annum.	0.4% of annual turnover in excess of Shs 10 million.	Shs 80,000
Exceeding Shs 30 million but does not exceed Shs 50 million per annum.	Shs 80,000 plus 0.5% of annual turnover in excess of Shs 30 million.	Shs 200,000
Exceeding Shs 50 million but does not exceed Shs 80 million per annum.	Shs 180,000 plus 0.6% of annual turnover in excess of Shs 50 million.	Shs 400,000
Exceeding Shs 80 million but does not exceed Shs 150 million per annum.	Shs 360,000 plus 0.7% of annual turnover in excess of Shs 80 million.	Shs 900,000



Questions

TEST PAPER 1

CPA (U) NOVEMBER 2017

Question 1

Twefuge Bank Uganda Limited (TBUL) operates commercial banking business in Uganda. TBUL, which is listed on the Uganda Securities Exchange, is regulated by the Bank of Uganda. It runs a network of forty branches spread throughout the country.

Their statement of profit or loss and other comprehensive income for the year ended 31 December, 2015 was as follows:

	Notes	Shs 'million'
Interest income	1	200,000
Interest expense		<u>(23,000)</u>
Net interest income		177,000
Fees & commission income		72,500
Fees & commission expenses		<u>(1,050)</u>
Net fees & commission income		71,450
Net trading income	2	43,000
Other operating income	3	<u>183</u>
Total operating income		291,633
Impairment charge for credit losses	4	<u>(16,800)</u>
		274,833
Employee benefits & expenses		(60,000)
Depreciation & amortisation		(9,600)
Other operating expenses	5	<u>(110,000)</u>
Profit before tax		<u><u>95,233</u></u>

Notes:

- Interest income comprises of the following amounts:

	Shs 'million'
Treasury bills	29,000
Treasury bonds	3,500
Loans & advances to customers	150,000
Loans & advances to banks	<u>17,500</u>
	<u><u>200,000</u></u>

2.	Net trading income comprises of the following amounts:	Shs 'million'
	Unrealised gain on foreign exchange trading	10,000
	Debt securities trading	<u>33,000</u>
		<u>43,000</u>

3.	Other operating income comprises of the following:	Shs 'million'
	Profit on disposal of equipment	83
	Rental income	<u>100</u>
		<u>183</u>

4.	Impairment charge for credit losses:	Shs 'million'
	Specific impairment provision	15,600
	General impairment provision	2,800
	Recoveries of loans previously written off	<u>(1,600)</u>
		<u>16,800</u>

5.	Other operating expenses:	Note	Shs 'million'
	Marketing & advertising	(a)	8,000
	Auditor's remuneration		350
	Other professional fees		13,000
	Office running expenses		12,000
	Security expenses		8,000
	Information technology expenses	(b)	25,000
	Directors' fees and expenses		280
	Insurance		4,500
	Training costs	(c)	12,000
	VAT on imported services		7,500
	Renovation of rental premises		20
	Other operating expenses		<u>19,350</u>
			<u>110,000</u>

(a) Included in the marketing and advertising expenditure is an amount of Shs 500 million that was paid towards the construction of the headquarters of the Patriotic Movement Party (PMP), a political party with presence throughout the whole country.

(b) Included in the information technology expenses is an amount of Shs 10 billion that was paid to a consultancy firm based in South

Africa to provide and connect a new IT software system in the newly opened branch in Mbarara, South Western Uganda.

- (c) Training costs include an amount of Shs 120 million relating to the payment of school fees for employees' dependants. The amount has not been treated as a taxable benefit to the employees.

6. Property, plant and equipment:

- (a) The bank bought and put to use the following items of property during the year ended 31 December, 2015.

	Shs 'million'
1 bullion truck	500
100 money counting machines Shs 8 million each	800
10 ATM machines Shs 28,000,000 each	280
50 desktop computers Shs 5,000,000 each	250
70 office chairs Shs 750,000 each	52.5
70 office desks at 1,800,000 each	126
	<u>2,008.5</u>

- (b) The tax written down values as at 1 January, 2015 were as follows:

Class	Shs 'million'
I	5,600
II	8,000
III	9,080
IV	23,000

- (c) 50 Desktop computers whose book value was Shs 25,000,000 were sold to staff at Shs 108,000,000.

7. The bank had an assessed tax loss brought forward of Shs 35,850,400,000.

Required:

- (a) Compute the chargeable income and tax payable for TBUL for the year ended 31 December, 2015.

(13 marks)

- (b) Compute the capital allowances due to TBUL for the year ended 31 December, 2015.

(7 marks)

- (c) TBUL had paid provisional tax of Shs 5 billion for the year ended 31 December, 2015 on 29 December, 2015. They also filed their return on 30 May, 2016 and paid the balance of the tax and any penalties calculated on the same date.

Required:

- (i) Explain the provisions of the Tax Procedures Code (TPC) Act, 2014 relating to penal tax for understating provisional tax estimates for a corporate taxpayer.
(5 marks)
- (ii) Compute the penal tax, if any, payable by TBUL for understatement of provisional tax payable for the year ended 31 December, 2015.
(4 marks)
- (d) Included in the impairment of loan provisions made during the year 2015 is an amount of Shs 10.4 billion relating to Byangala Construction Company Limited (BCCL), a real estate development company. BCCL borrowed Shs 12 billion on 1 January, 2015 with a 36 month repayment period. However, the company faced financial difficulties after paying only 5 instalments and has since halted the construction processes. According to the Bank of Uganda prudential norms 50% of the outstanding loan should be classified as doubtful. However, the bank has got information that the major shareholder of the company who owns 90% of the shares had diverted some of the loan amounts to other personal ventures, which have failed and he has filed for bankruptcy. It is on the basis of that fact of bankruptcy that the bank has decided to write off the whole outstanding loan amount as a provision for impairment.

Required:

- (i) Set out the circumstances under which a taxpayer may be allowed a deduction for a bad debt written off during the year in determining his/ her chargeable income.
(4 marks)
 - (ii) Explain the term 'bad debt' in relation to a financial institution as per the provisions of the Income Tax Act.
(2 marks)
 - (iii) Advise BCCL on the income tax implications of the transaction described in (d) above.
(5 marks)
- (Total 40 marks)**

Question 2

- (a) Explain what you understand by the following terms as used in the Income Tax Act Cap 340 laws of Uganda:
- (i) 'Property income'. **(4 marks)**
 - (ii) 'Dividend'. **(4 marks)**
- (b) The Income Tax Act provides for circumstances under which withholding tax on the payment of dividends to a resident individual is considered a final tax.

Required:

Discuss any **four** implications of withholding tax as a final tax in relation to the above statement and in accordance to the Act. **(4 marks)**

- (c) Rev. Ojakol Alphonse is an enterprising Ugandan resident with a number of income sources. During the year ended 31 December, 2016 he earned the following income:

1. Rental income from several rented properties in Kenya as per the details below:

Property location	Monthly rent KShs
Nairobi	100,000
Kisumu	50,000
Mombasa	128,571
Nairobi	137,143
Nairobi	<u>105,714</u>
Total	<u>521,428</u>

Rent expenses incurred per month:

	KShs
Water and electricity	3,429
Property & ground rates	2,714
Cleaning & compound maintenance	5,000
Security & supervision	10,000
General repairs & maintenance	10,000

Note:

Assume the exchange rate ruling on the transaction date was 1 KShs = 35 US\$

2. Fixed deposit interest Shs 750,000 from DU Bank (in Uganda). Rev. Ojakol deposited Shs 5 million in his fixed deposit account with DU Bank in January, 2016.

3. Shs 1,840,000 interest on three months treasury bills by Bank of Uganda. Rev. Ojakol purchased treasury bills worth Shs 12.5 million in March, 2016.
4. Dividends Shs 12.5 million from Stab Bank share investment.

Required:

Determine Rev. Ojakol's total tax liability for the year ended 31 December, 2016.

(8 marks)

Total (20 marks)

Question 3

Mondi operates three big supermarkets in India under the name 'Quick Save'. He opened a supermarket in Uganda located in the suburbs Kampala in Ntinda. They deal in multiple goods and services. Mondi was registered for VAT effective 1 January, 2017 and deals with VAT registered taxpayers only.

During the month of January, 2017 Mondi presented to you a summary of his transactions as follows:

Purchases (VAT inclusive where applicable)

Date	Transaction	Shs '000'
1	Purchased sugar	25,000
	Purchased bananas	11,500
	Purchased exercise books	24,500
	Purchased laptop computers	35,000
12	Installed CCTV in the supermarket	30,000
15	Purchased insecticides	11,000
	Purchased baking powder	12,500
25	Prepaid rent for 6 months	15,000

Sales (VAT exclusive where applicable)

Date	Transaction	Shs '000'
6	Sold sugar	12,000
7	Sold bananas	1,100
	Sold exercise books	2,500
8	Sold 5 laptop computers	5,000
12	Sold sugar to Mukasa who promised to pay by 31 January	2,100
20	Sold insecticides	3,300

Required:

- (a) Advise Mondi on the:
- (i) VAT payable or claimable for the month of January, 2017. **(8 marks)**
 - (ii) VAT treatment of the transaction where Mukasa, one of his major clients bought sugar Shs 2,100,000 and promised to pay by 31 January 2017 but failed to fulfill his promise (VAT on bad debts). **(4 marks)**
 - (iii) differences between cash and accrual method of accounting. **(2 marks)**
- (b) Mondi would like to link his point of sales server to one of the branches based in India. His information technology (IT) expert based in India has advised him that with this concept, he can monitor the sales from the Ugandan branch even when he travels to India. The estimated price for this service is Shs 25,000,000. The IT expert has indicated that he can do this job without necessarily coming to Uganda.

Required

Advise Mondi on the VAT implications of this transaction. **(6 marks)**
(Total 20 marks)

Question 4

Lydia is a young accountant who was given a five year contract with Life Africa, a Christian based Non-Governmental Organisation (NGO). The contract started on 1 January, 2016 and is expected to run until 31 December, 2020 with a possibility of renewal. The NGO provides solar power to the needy communities in northern and eastern Uganda and it is tax exempt for income tax purposes. The details of the contract are as follows:

1. Basic salary Shs 8,500,000 per month payable in her bank account.
2. Over-time pay for working on weekends Shs 200,000 per day worked. She worked for 24 days on weekends during the year.
3. Life insurance at Life Assurance Limited Shs 4,500,000 per annum for self and her dependants.
4. Cost of living allowance of 0.5% of basic pay payable every January of the following year.
5. Local service tax paid Shs 100,000
6. Accommodation allowance Shs 3,500,000. She chose to reside in the suburbs of Bugolobi.
7. Shs 800,000 for travel to the field for official duties. She travelled six times during the year.

8. Entitlement to register with the National Social Security Fund (NSSF) of which she will contribute 5% and the employer 10% of her basic salary.
9. Entitlement to a company car which was bought for Shs 150,000,000 from Toyota Uganda.
10. The NGO gave her a salary loan Shs 30,000,000 on 1 September, 2016 at a negotiated interest rate of 10% per annum for three years. The statutory rate as at 1 July, 2016 was 18%.
11. The company also provides her with security guards whom they pay Shs 3,600,000 per annum.
12. She is entitled to lunch that is provided by the NGO. This lunch is believed to be enjoyed by everyone in the organisation. The NGO values every plate of food at Shs 10,000.

Other information:

1. She enrolled for a postgraduate diploma in project management at UKL University and she pays Shs 2,500,000 per semester.
2. She is a chairperson of the Finance Committee of Life Africa and she was paid Shs 2,500,000 for her participation during the year ended 31 December, 2016.

Required:

- (a) Advise Lydia on her chargeable income and tax payable for the year ended 31 December, 2016. Comment why you have omitted some specific transactions.

(14 marks)

- (b) Explain the circumstances where a benefit is derived in respect of employment income.

(3 marks)

- (c) Explain any **three** differences between a contract for service and a contract of service.

(3 marks)

(Total 20 marks)

Question 5

- (a) Demonstrate your understanding of gains and losses on disposal of assets as per the provisions of the Income Tax Act.

(3 marks)

- (b) Explain the circumstances under which a taxpayer is treated as having disposed of an asset.

(3 marks)

- (c) Explain any **three** cases where a transaction does not give rise to a gain or loss for tax purposes on the disposal of an asset by a taxpayer.

(3 marks)

- (d) Good Life Uganda Ltd, an electronics entity started operations in Uganda on 1 January, 2016. During the year it acquired the following assets:

Asset	Shs '000'
5 computers	15,000
27-seater van	13,000
5-ton pick-up	18,000
60-seater van	75,000
Tractor	80,000
Building-office block	50,000
Office furniture and fittings	25,000
2-ton pick-up	30,000

Additional information:

1. On 31 October, 2016 the company acquired a set of office furniture at Shs 4,000,000 and a second-hand printer at Shs 990,000/.
2. On 15 November, 2016 the company disposed of one of the computers at Shs 2,000,000/. In return the company purchased a new 3-ton truck at Shs 5,800,000.

Required

Prepare a wear and tear schedule for Good Life Uganda Ltd, as at 31 December, 2016.

(11 marks)

Total (20 marks)

TEST PAPER 2

CPA (U) JUNE 2018

Question 1

- (a) Makambanawe George is a medical doctor currently employed by Muhenda Hospital, a privately owned hospital located in Fort Portal Kabarole district, as a medical officer. The appointment was effective 1 July, 2015 on a four-year renewable contract. As part of his entitlement, George was availed with a vehicle for both official and private use. The vehicle was a brand new Toyota Prado TX model 2014 purchased from Japan on 1 January, 2015 at Shs 100 million. George is charged a nominal monthly fee of Shs 50,000 by the employer as his contribution towards this benefit.

In accordance with his employment contract, the following took place during the year ended 30 June, 2017:

1. Monthly basic salary Shs. 8 million.
2. Accommodation by employer near the hospital. The house has an annual market rent of Shs 12 million.
3. Employer also provided George with workers' quarters to accommodate his domestic workers within the same compound. The annual market rent for such workers' quarters is Shs 2.4 million.
4. Employer pays his domestic assistant and a gardener a monthly salary of Shs 150,000 each.
5. George's spouse was paid Shs 500,000 as travel allowance by his employer during the year.
6. Employer provided George with a phone handset with a sim-card to use during his term of employment which must be returned upon expiry of his employment contract in 2019. The cost of the handset including the sim-card was Shs 3.5 million. The employer will replace it with a similar phone in the event it is lost or spoilt. However, the depreciated cost will be deducted from his salary in such circumstances. He was also provided with monthly airtime for both business and personal use Shs 400,000 paid directly to the service provider. He is not required to account for the business usage of the phone.
7. Was offered a loan by the employer at a rate of 7.5% interest per annum of Shs 40 million during the year which he cleared fully by the year ended 30 June, 2017.

8. Employer pays school fees for George's 3 children Shs 2 million each per year at Tooro Boarding Primary School in Fort Portal Municipality.
9. George is paid gratuity Shs 10 million at the end of every one year of service.
10. Due to insecurity in the area, his employer provided him with 2 security guards, one for his home and the other as his personal escort. Each guard is paid a monthly salary of Shs 450,000 by the employer. He was required to contribute a monthly fee of Shs 50,000 towards this benefit.
11. Employer provides George with free treatment for himself, spouse and four biological children. However, he is required to pay for any other relatives. During the year, the employer treated his family members for Shs 10 million. The employer also treated his domestic assistant for a total of Shs 2.6 million which he has not yet paid but it has not been deducted from his salary.
12. His employer paid a life insurance premium to Sanlam Insurance Company Shs 6.5 million.
13. He borrowed Shs 17 million from a bank in town for private purpose. He, however, was able to pay back only Shs 10 million. The balance was paid by his employer plus the outstanding interest of Shs 3 million when he was about to be imprisoned by the bank for defaulting on installment payments. The employer decided not to recover this money from him in appreciation of the specialised service he provides.
14. During the year as part of his obligation, the employer deducted Shs 100,000 from his salary as his annual payment for local service tax which was remitted to Fort portal Municipal Council.
15. During the end of year party, George being the best employee of the year was rewarded by the employer with a brand new vehicle - a Toyota Hilux double cabin valued at Shs 65 million plus a full year's fuel card of Shs 15 million. In addition, he was also given Shs 8 million for him and his family to take a one week's holiday trip to Mombasa.

Note:

The average statutory rate by the central bank as at 1 July, 2016 was 15%.

Required:

- (i) Advise George on what constitutes his gross employment income and chargeable income for the year ended 30 June, 2017. Clearly indicate to George, with reasons, why some income may not be included in his gross income.

(23 marks)

- (ii) Compute George's tax payable on employment income for the year ended 30 June, 2017.

(2 marks)

- (b) Dr. Makambanawe George has been thinking about retiring into his own practice in the near future. During the year ended 30 June, 2017 he took steps towards attaining his goal. He bought land in Kyenjojo district where he embarked on constructing his retirement home and clinic. Both the home and the clinic are located on the same property. About 50% of the property is reserved for agriculture and grazing Friesian cows for domestic purposes in the near future.

He bought the land at Shs 200 million on 1 August, 2016 and embarked on construction of his residential house and clinic at the same time. By 31 December, 2016 the clinic had been completed and it took Shs 180 million to complete. The residential house was not yet complete and he estimated to have spent Shs 50 million on its construction.

On 1 January, 2017 he started working part-time at the clinic during weekends. Only the out-patient section of the clinic was operational.

On 2 January, 2017 he bought the following for use in the clinic:

Item	Note	Shs '000'
Furniture, fittings & equipment	1	30,000
2 hospital examination beds		20,000
Laboratory equipment		25,000
Scanning machine		130,000
X-ray machine		140,000
Ambulance		<u>90,000</u>
Total		<u>435,000</u>

George's income and expenditure statement for the clinic for the period January - June, 2017 is as follows:

Income:	Note	Shs '000'
Consultation fees		35,000
Sale of medicine and drugs		12,000
Laboratory income		3,500
Scanning and x-ray income		<u>12,500</u>
Total		<u>63,000</u>
Expenses:		
Salaries and wages	2	10,000
Water & electricity	3	8,000
Rent	4	4,200
Clinic expenses		5,300
License fees		1,500
Maintenance expense	5	65,600
Transport (for clinic supplies)		5,000
Home expenses		<u>7,500</u>
Total		<u>107,100</u>

Notes:

- 1 Included furniture, fittings & equipment are the following:

	Shs '000'
10 chairs each at	50
5 desks each at	100
Partitioning for	20,000
2 computers each at	3,500
10 benches for outpatient waiting room	1,500
- 2 George's wife is a nurse and has been getting Shs 1 million per month from the clinic as her salary for running the clinic on a daily basis. George withdraws Shs 200,000 every weekend that he works at the clinic and this amount is recorded as salaries. He worked for a total of 20 weekends from January to June, 2017.
- 3 30% of the water and electricity are used at the construction site for their residential home.
- 4 The family is renting a small house in Kyenjojo town since their residence is yet to be completed.
- 5 The maintenance expense includes depreciation of plant, machinery & equipment Shs 60 million.

George thought that the income earned from the clinic business is exempt from tax because his work is to benefit the community and

not profit earning. However, he has been informed that it is not exempt and has requested that you advise him on what tax he has to pay.

Required:

- (i) Advise George on his chargeable income and tax payable on the clinic operations, if any.

(9 marks)

- (ii) Explain to George the requirements for his clinic to be exempt from tax and the process he will need to go through in order to have the income exempted from tax.

(6 marks)

(Total 40 marks)

Question 2

In a recent workshop organised by the Institute of Certified Public Accountants of Uganda (ICPAU) in northern Uganda, Mr. Kadwangu, the Chief Administrative Officer of Nwoya district arrived late for the workshop when the presenter was concluding the presentation on taxation of petroleum operations in Uganda. In his concluding remarks, the presenter gave highlights on the petroleum operation value chain in Uganda and the different ways through which international oil companies can acquire rights to oil explorations. He mentioned that there are basically three phases (streams) in the petroleum value chain. However, given the fact that Mr. Kadwangu had limited knowledge on the subject of taxation of petroleum operations in Uganda, he has approached you as a tax adviser to help shed more light on some of the areas discussed by the presenter.

Required:

- (a) Identify the phases (streams) in the petroleum value chain and explain the related stages and activities in each of the streams in the petroleum value chain.

(10 marks)
- (b) Explain the tax treatment of the following under Section 89 of the Income Tax Act of Uganda:
 - (i) Petroleum exploration expenditure. **(3 marks)**
 - (ii) Deductions relating to petroleum operations. **(2 marks)**
- (c) Bulisa Oil Company, with their head office located in Hoima district, acquired a petroleum exploration license from the Government of Uganda in 2015. However, they were not able to carry out their operations until January, 2017 when they mobilized resources from their foreign funders that operations began. During the month of January, 2017 the following activities took place.
 - 1. Obtained loan USD 10 million from Norway Oil Company Ltd, their shareholder and funder. The loan will be subject to interest of 5% per annum but the interest will be paid if the company finds oil and proceeds to commercial production phase. In the meantime, it will be accrued but not paid.
 - 2. Leased an oil rig for three years at a rental of USD 120,000 per annum.
 - 3. Purchased other exploration equipment USD 500,000.

4. Purchased 3 motor vehicles (double cabin pick-ups) to be used by the engineering staff at Shs 100 million.
5. Paid the local staff Shs 2 million and expatriate staff USD 100,000. The other operational expenses for the year ended 31 December 2017 were Shs 120 million.

The average exchange rate was USD 1 = Shs 3,600.

Required:

Comment on the tax treatment of each of the above expenses for the year ended 31 December, 2017.

(5 marks)

(Total 20 marks)

Question 3

- (a) ABBA Enterprises is a small business taxpayer based in the central business district of Kampala, dealing in in general merchandise. During the year ended 30 June, 2016 their turnover amounted to Shs 145 million. The business is not registered for value added tax (VAT). The Managing Director, Mr. Kitooke, was advised by a business associate that he could expand his business opportunities if he registered for VAT but he does not understand the concept of VAT and how it operates. Mr Kitooke has come to you as a knowledgeable person in tax matters to explain to him what VAT is all about.

Required:

Explain to Mr Kitooke the following issues:

- (i) Person(s) required to register for VAT as per the provisions of the VAT Act Cap 349.
- (ii) The obligations a VAT registered person must fulfill upon registration.
- (iii) The benefits that accrue to a VAT registered person.
- (iv) Circumstances that may lead to the deregistration of a taxpayer by the Commissioner General.
- (v) Meaning of the term 'taxable supply'.

(10 marks)

- (b) Mr Kitooke was visited by the revenue officials in January, 2018 who put it to him that he should have been registered for VAT. They asked him to avail his records for the period July to December, 2017 for audit which he agreed to do. For the period that the revenue officials audited, he had mainly sold sugar, blue band, soap, exercise books, and mosquito nets and his turnover was as follows:

	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Item	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Sugar	2,500	3,500	3,900	4,000	4,200	4,500
Blue band	2,300	2,800	3,500	3,900	4,300	4,700
Soap	1,500	2,300	3,600	4,200	4,600	5,000
Exercise books	2,800	3,500	4,500	5,000	5,800	6,200
Mosquito nets	<u>3,000</u>	<u>4,500</u>	<u>5,000</u>	<u>5,500</u>	<u>6,000</u>	<u>6,800</u>
Total	<u>12,100</u>	<u>16,600</u>	<u>20,500</u>	<u>22,600</u>	<u>24,900</u>	<u>27,200</u>

The revenue officials issued him a VAT assessment on 1 February, 2018. The assessment did not include any penalties but included interest for late payment of the tax.

ABBA Enterprises makes standard rated purchases of Shs 2 million (VAT exclusive) per month.

Required:

Advise ABBA Enterprises on when they were required to have registered for VAT and the VAT payable/ claimable that the tax officials should have assessed them.

(10 marks)
(Total 20 marks)

Question 4

- (a) Hinata Auto Motors International Limited (HAMIL) based in Japan involved manufactures various types of motor vehicles and motor spare parts. They export a substantial amount of their products on the Ugandan market. In order to take advantage of the increasing market share in Uganda, the company decided to open a branch (Hinata Auto Motors International Limited - Uganda branch) in Kampala in July, 2015. The branch handles all the publicity and marketing for the company in Uganda.

The statement of profit or loss and other comprehensive income for the branch for the year ended 30 June, 2017 is as follows:

	Note	Shs '000'	Shs '000'
Revenue			8,000,000
Cost of sales	1		(1,250,000)
Gross profit			6,750,000
Less			
Depreciation	2	350,000	
Selling expenses		2,550,000	
Administrative expenses	3	2,000,000	(4,900,000)
Net profit			<u>1,850,000</u>

The extract of the statement of the financial affairs of the branch as at 30 June, 2017 is as follows:

	2017 Shs '000'	2016 Shs '000'
Plant, property & equipment	950,000	1,200,000
Current assets:		
Inventory	1,050,000	1,250,000
Receivables	1,200,000	1,350,000
Bank balance	1,500,000	950,000
Cash in hand	120,000	500,000
Current liabilities:		
Payables (rent & office supplies)	(620,000)	(850,000)
	<u>4,200,000</u>	<u>4,400,000</u>
Head office current account	<u>4,200,000</u>	<u>4,400,000</u>

Notes

- 1 The cost of sales is made up of the following amounts:

	Shs '000'
Opening inventory	1,250,000
Received from head office	1,050,000
Closing inventory	(1,050,000)
	<u>1,250,000</u>

The head office values the stock of the vehicles they send to Uganda at cost plus 10%.

- 2 The branch owns computers and motor vehicles that are mainly used by the marketing staff. The tax written down values for the assets held by the branch were:

Class	Shs '000'
I	56,500
II	450,000
IV	88,500

There were no asset additions during the year.

- 3 Included in Administrative expenses is Shs 500 million that was charged by the head office to the branch for the services rendered by the head office.

Required:

Advise Hinata Auto Motors International Limited – Uganda branch on their tax payable for the year ended 30 June, 2017 including tax payable on the branch repatriated income, if any.

(10 marks)

- (b) The revenue authority has indicated that they will not allow as a deduction the administrative expenses of Shs 500 million that have been charged to the branch and the 10% mark-up on the inventory. In the view of the revenue authority, the prices have not been determined at 'arm's length'.

Required:

Do the following for the management of Hinata Auto Motors International Limited - Uganda branch:

- (i) Explain the meaning of 'arm's length' price.

(2 marks)

- (ii) Explain any **three** transfer pricing methods that they could use to analyse and document the branch's transactions with the head office to prove to the revenue officials that the pricing for both the inventory and administrative costs are at arm's length.

(6 marks)

- (iii) Advise whether they have any other tax obligations regarding the payment of Shs 500 million administrative fees to the head office in Japan.

(2 marks)

(Total 20 marks)

Question 5

- (a) Kazimungi Limited (KL) is an importer of used cars from Japan. During the month of December, 2017 he imported 50 used Toyota Corona cars model 2009. The cars were cleared into Uganda through the Malaba customs office.

The commercial invoice quoted each car at USD 1,300 CIF Mombasa. KL spent Shs 20 million to transport the cars from Mombasa to Malaba.

The exchange rate of the dollar to shillings for the month of December, 2017 was quoted at 3,645.

KL received an assessment from the revenue authority for under declaring his income for the year ended 30 June, 2017 to which he objected. Reconciliation is still ongoing at the authority and as a result, the company was not included on the list of taxpayers that have been exempted from

the payment of 6% withholding tax for the period ended 31 December, 2017.

The following are the ruling rates of import duty:

Raw materials	0%
Intermediate goods	10%
Finished goods	25%
Environmental levy	50%
Infrastructure levy	1.5%

Required:

Advise KL on the taxes and duties payable on the clearance of the cars at Malaba customs office.

(14 marks)

- (b) According to the Fifth Schedule to the East African Community Customs Management Act, duty shall not be charged on rally drivers on rally cars and parts when imported or purchased before clearance through customs, if they are for use by the rally driver.

Required:

Explain the conditions that must be fulfilled for the exemption above to be applied.

(6 marks)

(Total 20 marks)

TEST PAPER 3

CPA (U) AUGUST 2018

Question 1

Western Cement Industries Ltd (WCIL) manufactures cement from limestone deposits mined from the rift valley areas of Rubirizi district, western Uganda. The main factory was constructed 10 years ago and is located in Kyamburatown, a major trading centre in the district.

The following is WCIL's extract of the statement of profit or loss and other comprehensive income for the year ended 30 June, 2017:

	Note	Shs 'million'
Revenue		538,375
Cost of sales	1	(433,195)
Gross profit		105,180
Investment income	2	<u>2,210</u>
		107,390
Distribution costs	3	(7,500)
Marketing expenses	4	(10,200)
Administration expenses	5	(25,000)
Finance costs	6	<u>(3,000)</u>
Profit before tax		<u><u>61,690</u></u>

Additional information:

- Included in the cost of sales:

	Shs 'million'
Fuel & electricity	85,000
Production raw materials	100,000
Professional fees	10,000
Transport costs	45,000
Depreciation of property, plant & equipment	98,500
Wages for casual labour	38,695
Insurance costs	<u>56,000</u>
	<u><u>433,195</u></u>

2. Investment income:
The investment income comprises of interest earned on fixed deposit accounts in various banks within Uganda.

3. Distribution costs:

	Shs 'million'
Motor vehicle maintenance expenses	1,810
Warehouse expenses	2,500
Entertainment expenses for salesmen (they are not required to provide any accountability)	120
Depreciation of motor vehicles	1,200
Provision for bad debts	<u>1,870</u>
	<u>7,500</u>

4. Marketing expenses:

	Shs 'million'
Radio & television advertisements	5,000
Sponsorship for vulnerable children in the community	35
Sponsorship for town football club (factory logo displayed at all matches where the team plays)	500
Contribution towards independence celebrations at the district	20
Others - all related to the business	<u>4,645</u>
	<u>10,200</u>

5. Administration expenses:

	Shs 'million'
Staff costs	15,000
Communication expenses	2,000
Security costs	5,500
Technical & professional fees (note 7)	1,200
Auditor's remuneration	520
Subscriptions to the Uganda Golf Union for management staff	40
Subscriptions to the Uganda Professional Engineers Association	30
Others - all business related	<u>710</u>
	<u>25,000</u>

6. Finance costs:
Shs 3 billion was paid as interest on a loan of Shs 30 billion that was acquired to finance expansion of the factory. The extension was still under construction by 30 June, 2017 and is yet to be put to use.
7. Technical & professional fees:
The company employed three consultant engineers who are employees of Hardman Cement Industries Limited (HCIL), a company based in India. The three are citizens of India. The engineers were in the country for only five months and were paid Shs 200 million each as per the terms of their contract with HCIL.
8. Property, plant & equipment:
Tax written down values as at 1 July, 2016:

	Shs 'million'
Class I	750
Class II	1,900
Class III	285,050
Class IV	90,000

Asset additions during the year ended 30 June, 2017:

	Shs 'million'
Limestone mining equipment	1,000
Two 10-ton trucks each at	150
Mercedes Benz for the managing director	250
Replacement of cement packing machine	1,600
Construction of a lorry parking yard	250
10 Laptop computers	30
Furniture	50

The existing factory building was constructed at Shs 1,200 billion and was first put to use on 1 July, 2007. The qualifying cost for industrial building allowance on 1 July, 2007 was Shs 960 billion.

Disposals:

- (i) The old Toyota Land Cruiser for the managing director was sold at Shs 70 million. It had cost the company Shs 200 million when it was bought on 1 July, 2015. Motor vehicles are depreciated at 25% straight-line as prescribed by the company policy. Any gains or losses on sale of assets are already included in the revenue.
- (ii) The old cement packing machine that was replaced was sold for Shs 150 million. The machine had been fully depreciated for accounting purposes.

9. The provisional tax paid for the year ended 30 June, 2017 was Shs 2.1 billion.
10. WCIL filed the return for the year ended 30 June, 2017 and paid the balance of the taxes due for the year on March, 2018.

Required:

- (a) Compute the corporation tax payable by WCIL for the year ended 30 June, 2017.

(26 marks)

- (b) Advise the management of WCIL on:

- (i) the penalties and interest due, if any.

(7 marks)

- (ii) the tax treatment for the technical and professional fees to the three expatriates from HCIL.

(7marks)

(Total 40 marks)

Question 2

Bidmak International is a multinational company with a number of subsidiaries in different African countries including Uganda. Anderson Gregory, a resident of Eritrea where Bidmak International has its headquarters was hired as an expatriate to head its finance and administration operations in Uganda.

Anderson's appointment was effective 1July,2017 for a twelve-month contract, and on that date, he was availed a vehicle for use on both private and official duties. The vehicle was a brand new Toyota Land Cruiser V8 purchased from Kiyoko Uganda Limited at a cost of Shs 340 million. The company charged him a monthly nominal fee of Shs1.5 million for the use of the vehicle.

The company also has a policy of encouraging directors to acquire loans at a lower rate to enable them acquire property. He was thus given a loan of Shs 300 million at an interest rate of 5% per annum which he fully paid back by the end of June 2018 (12-months loan).

Anderson, being the Head of Finance & Administration, made two field visits per month where he spent two nights per visit. He was entitled to Shs 200,000 per diem per day and an accountable transport advance of Shs 500,000 per visit for fuel expenses.

Anderson was entitled to the following benefits:

1. Monthly basic pay Shs 45 million.

2. Cost of living allowance of Shs 2millionper month.
3. Travel allowance for spouse Shs 2.5 millionper month.
4. Residential house in Nakasero. The house is part of the company houses reserved for senior managers and expatriates.The house has a monthly market rate of US\$ 1,500 but he made a monthly contribution of Shs2.5 millionfor the house benefit.
5. Was reimbursed Shs 6 million being cost of passage to Uganda when taking up his job in July2017.
6. Was paid Shs 7millionin the year ended 30 June, 2018 being discharge of his medical bills.
7. Employer made monthly National Social Security Fund (NSSF) contribution Shs 1.5million to his retirement benefit scheme in the year ended 30 June, 2018.
8. The employer grants benefits to senior employees including Anderson in the form of roses, chocolates and sweets worth Shs 9,100 on a monthly basis throughout the year.
9. Housekeeper Shs 450,000 per month.
10. The company runs a separate pension scheme in addition to contribution to NSSF whereby he would be entitled to a receipt of Shs 100,000,000 at the end of the contract in June 2018.
11. Club membership in Kampala Club and Kabira Club totaling Shs500,000 per month.
12. Security guard provided by Hash Security Group at Shs1.5million per month.
13. Medical allowance Shs 3 million per month.
14. Life insurance premium Shs 500,000 to UAP Life Assurance Company Ltd.

Assume the following:

- Exchange rate of Shs 3,550 to US\$1.
- Bank of Uganda average ruling rate for the year 10%.

Anderson, being an Eritrean is not well versed with Ugandan tax laws, andhas decided to obtain your services as a tax consultant to review his tax issues for the year ended 30 June, 2018.

Required:

- (a) Advise Anderson on the following issues with respect to the Income Tax Act, Cap 340:
- (i) Gross employment income for the month ended 31 July, 2017. **(11 marks)**
 - (ii) Tax liability for the month of July, 2017. **(3 marks)**
 - (iii) The due date for filing and payment of the monthly pay as you earn. **(2 marks)**
- (b) Compute the interest incurred due to the late payment of the tax liability given that the PAYE liability for Bidmak International for July, 2017 was Shs 128,535,000, but actual payment was made to the Uganda Revenue Authority on 15 January, 2018, **(2 marks)**
- (c) Explain how foreign employment income of a resident individual is treated in Uganda. **(2 marks)**
- (Total 20 marks)**

Question 3

The management of Bendlow Uganda Limited (BUL) received an estimated assessment of Shs 100 million from the revenue authority on 30 January, 2018. The explanation on the assessment was that it was an 'administrative additional assessment due to the company underestimating their chargeable income for the year ended 31 December, 2016.'

The management of BUL have approached you for advice on the tax challenges they have been experiencing while importing goods into the country.

Required:

- (a) Explain to the management of BUL the following terms as used in the Tax Procedures Code (TPC) Act, 2014 and Income Tax Act, Cap 340 respectively:
- (i) Assessment. **(3 marks)**
 - (ii) Tax obligation. **(1 mark)**
- (b) Advise the management of BUL on any **three** grounds for an objection to an assessment to be considered a 'valid objection' by the Commissioner **(3 marks)**

- (c) Discuss the objections and appeals procedure for resolving a tax dispute (tax decision) between Uganda Revenue Authority and the taxpayer up to the High Court as per the Tax Procedures Code (TPC) Act, 2014.

(11 marks)

- (d) Advise the management of BUL on the penalty that is applicable where an amount of duty or other sum of money which is due under the East African Community Customs Management Act (EACCMA), 2004 remains unpaid after the date upon which it is payable in accordance to Section 249 of the Act.

(2 marks)

(Total 20 marks)

Question 4

Oilpro International is one of the leading oil exploration and development companies registered in the United Kingdom (UK). They own 99% of the shares in Oilplus Uganda Ltd (OUL), a resident company registered in Uganda to explore oil and gas in the Albertine region.

The following is an extract from OUL's statement of financial position for the year ended 31 December, 2017:

Equity & liabilities:	Shs 'million'
Shareholder's funds:	
Share capital	1,125
Capital redemption reserve	1,436
Security premium	4,125
Retained earnings	<u>1,520</u>
Equity	8,206
Non-current liabilities:	
Long-term borrowings	9,000
Current liabilities:	
Trade payables	1,230
Other current liabilities	<u>158</u>
Liabilities	<u>10,388</u>
Total equity & liabilities	<u>18,594</u>

Note:

OUL obtained a development loan from Oilpro International amounting to Shs 9 billion repayable in 10 years at an interest of 6% per annum at a fixed rate. As a tax advisor, you have been approached by the management OUL.

Required:

- (a) Advise the management of OUL on the amount of allowable and non-allowable interest for the year 2017. **(6 marks)**
- (b) With examples, explain any **three** mandatory and **five** discretionary powers that the Commissioner General uses in tax administration. **(8 marks)**
- (c) (i) Explain the meaning of the term 'arm's length principle' with reference to the Income Tax (Transfer Pricing) Regulations, 2011. **(2 marks)**
- (ii) Explain the options available to the Commissioner in case a taxpayer fails to demonstrate arm's length principle. **(4 marks)**
- (Total 20 marks)**

Question 5

Mugaga Uganda Limited (MUL) has been in the business of importing and exporting various items for the last five years. MUL owns a wholesale shop in the Kikuubo Lane shopping centre in Kampala through which the imported items are eventually sold to various distributors. MUL also owns a seed-processing plant on 1st Street of the industrial area of Kampala where various cereals are cleaned and packaged for export to Kenya, Sudan and the Democratic Republic of Congo. The company is registered for VAT.

All the cereals that the company exports are grown and milled in Uganda.

An extraction of their transactions for the month of March 2018 has been made. All imports and purchases are VAT exclusive whereas sales are VAT inclusive, where applicable. The weighted average exchange of the Uganda shilling (Shs) to the United States dollar (USD) for the month of March 2018 was 3,500.

Imports (inclusive of import duty where applicable):

Particulars	USD
Computers	22,000
Floor tiles	85,000
Radios	15,000
Medical equipment	50,000
Mosquito nets	50,000
Diapers	75,000
Coffee roasters	80,000
Hoes	36,000

Local purchases:

Particulars	Shs '000'
Rice	600,000
Wheat	450,000
Maize	1,000,000

Exports:

Particulars	Shs '000'
Rice	300,000
Wheat	150,000
Maize	450,000

Local sales:

Particulars	Shs '000'
Computers	35,000
Floor tiles	210,000
Radios	15,000
Medical equipment	140,000
Mosquito nets	157,500
Diapers	280,000
Coffee roasters	105,000
Hoes	70,000

Required:

- (a) Compute the VAT payable/claimable for the month of March 2018 in consideration of the options available to MUL.

(15 marks)

- (b) Given that the VAT return for March 2018 was filed on 20 April, 2018; advise MUL on the:

- (i) due date for filing the March 2018 VAT return.

(1 mark)

- (ii) provisions of the VAT law regarding the penalty for late filing of the VAT return.

(2 marks)

- (iii) possible penalty payable, if any.

(2 marks)

(Total 20 marks)

TEST PAPER 4

CPA (U) NOVEMBER 2018

Question 1

A & M Progressive Senior School Ltd is a privately registered, day and boarding secondary school that was licensed by the Ministry of Education and Sports in 2001. The school is owned by two directors Amuge and Masaba. Over the years, the school has attracted many students because of their good performance in the national examinations. The school has 2,500 students who study at both Mukono and Kampala campuses.

The following is an extract of their statement of profit or loss and other comprehensive income for the year ended 31 December, 2017:

	Note	Shs'000'
Incomes:		
School fees		4,200,000
Other incomes	1	<u>525,000</u>
		<u>4,725,000</u>
Expenses:		
Operating	2	2,997,000
Administrative	3	1,119,000
Finance	4	<u>547,000</u>
		<u>(4,663,000)</u>
Net profit		<u>62,000</u>

Notes:

- Other income comprise of the following amounts:

	Note	Shs '000'
Hire of school buses		47,000
Donations		345,000
School farm		80,000
Interest	(i)	48,000
Miscellaneous income		<u>5,000</u>
		<u>525,000</u>

- Interest income is gross and was earned from the school's fixed deposit account in one of the commercial banks in Uganda.

2. Operating expenses:

	Note	Shs '000'
Depreciation		680,000
Utilities		665,000
Kitchen	(ii)	1,025,000
Security		22,000
General provisions		51,000
Travelling expenses		163,000
Entertainment	(iii)	81,000
Laboratory		102,000
Donations (Mukono Orphanage Centre)		15,000
Repairs & maintenance	(iv)	135,900
Legal & accountancy		19,100
Bad debts	(v)	28,000
Other losses		<u>10,000</u>
		<u>2,997,000</u>

(ii) Kitchen expenses:

	Shs '000'
Foodstuffs	820,000
Beverages	180,000
Provisions (spoilt food)	<u>25,000</u>
	<u>1,025,000</u>

(iii) Entertainment expenses:

	Shs '000'
Food & drinks (parents day)	60,000
Hire of musical band (parents day)	5,000
Contribution to wedding for the head teacher's son	<u>16,000</u>
	<u>81,000</u>

(iv) Repairs and maintenance:

	Shs '000'
Kitchen equipment	49,000
Computers, scanners & photocopying machine	22,000
Motor vehicles	48,000
Purchase of laboratory equipment	900
Furniture	<u>16,000</u>
	<u>135,900</u>

(v) Bad debts:

	Shs '000'
School fees arrears written off	13,000
Provision for school fees arrears	4,000
Salary advance	<u>11,000</u>
	<u>28,000</u>

3. Administrative expenses comprise of:

	Note	Shs '000'
Salary & wages		600,000
NSSF employer contribution		76,000
Rent		23,000
School uniforms		42,000
Examinations		96,000
School competition		55,000
Staff welfare	(vi)	154,000
School tour & trips		49,000
Staff advance		24,000
		<u>1,119,000</u>

(vi) Staff welfare:

	Shs '000'
Foods & beverages	106,000
Life insurance premium	32,000
Christmas hampers	<u>16,000</u>
	<u>154,000</u>

4. Finance expenses comprise of:

	Shs '000'
Interest	420,000
Insurance	77,000
Bank charges	32,000
Realized foreign exchange loss	<u>18,000</u>
	<u>547,000</u>

5. The written down values of the school's depreciable assets as at 1 January, 2017 were as follows:

Class	Shs '000'
I	30,000
II	120,500
III	220,000
IV	180,000

6. Motor vehicles:

The school acquired two new 60 seater Isuzu buses at a cost of Shs 200 million each. These buses were financed by both school savings and loans. The school replaced the engine of the tractor that is used in the school farm located in Mukono. The engine cost Shs 38 million.

During the rainy season, a tree fell on one of the mini-buses which was parked in the school compound. The 14 seater mini-bus which cost Shs 21 million in 2005 had a nil book value at the time of the incident. It was replaced with a similar one at a cost of Shs 70.5 million.

The old Toyota corolla that was used by Masaba with a net book value of Shs 15 million was sold off at Shs 12.1 million on 30 June, 2017. It had cost the school Shs 49 million in 2014. The net result of the transaction was booked in the statement of profit or loss and other comprehensive income.

7. Computers and accessories:

During the year ended 31 December, 2017 the school installed tracking devices in all motor vehicles. The software cost Shs 28 million and is expected to serve the intended purpose for a period of 5 years.

Forty Dell computers were donated to the school by Anil Gordino a renowned Indian businessman as part of his corporate social responsibility. Each computer was valued at Shs 1.2 million. They sold off eighteen of the old computers which had a total net book value of Shs 3 million at Shs 4.21 million. The net loss or gain was posted to the statement of profit or loss and other comprehensive income.

The school also purchased three photocopying machines at a total cost of Shs 15 million.

8. Furniture and fittings:

The school acquired new furniture at a cost of Shs 29 million. They also installed wooden partitions to subdivide the dormitory at a cost of Shs 2.8 million.

9. Other assets:

The residue of expenditure of the school building was Shs 1,500,800,000 as at 31 December, 2016. The construction of the school parking lot at Mukono campus that started on 1 February, 2016 was finally concluded on 31 December, 2016 and made available for use to teachers, parents and other visitors on 1 January, 2017. It cost the school Shs 27 million.

Required:

- (a) Compute the chargeable income and tax payable for A & M Progressive Senior School Ltd for the year ended 31 December, 2017.

(25 marks)

- (b) Advise A&M Progressive Senior School Ltd on:

- (i) the due dates for filing provisional and final returns for the year ended 31 December, 2017.

(1 mark)

- (ii) penal tax for failing to maintain proper records.

(1 mark)

- (iii) tax treatment of non-cash income earned by the school.

(3 marks)

- (c) Explain the meaning of 'exempt organisation' as per the Income Tax Act Cap 340 Laws of Uganda.

(5 marks)

- (d) The directors of A & M Progressive Senior School Ltd intend to start an orphanage centre to support children within the community with food, water and health care services. They have approached you seeking advice on how they can successfully obtain income tax exemption from the Uganda Revenue Authority.

Required:

Advise the directors on the process of obtaining income tax exemption.

(5 marks)

(Total 40 marks)

Question 2

Matagi Uganda Limited (MUL) imports and sells Toyota motor vehicles from Japan. In addition, they also own and use some of the vehicles and later sell them as used vehicles on the local market.

In January 2015, MUL bought a brand new Toyota Prado at Shs 200 million for use by the marketing manager. In January 2017, the vehicle developed a mechanical problem and the company decided to sell it off at Shs95 million. The company's depreciation policy is that all motor vehicles are depreciated at 20% per annum on straight-line basis.

Required:

- (a) Explain what you understand by 'gains and losses' on disposal of business assets as per the Income Tax Act, Cap 340.
(2 marks)
- (b) Discuss the income tax treatment of gains or losses that arise on the disposal of business assets.
(2 marks)
- (c) Compute MUL's accounting and tax gains or losses on disposal of the Toyota Prado. Explain clearly how the gain or loss on disposal should be treated for tax purposes.
(8 marks)
- (d) KabongaUganda Limited (KUL) bought a building in Ntinda industrial area for Shs1 billion in 2008. The building was used as a warehouse for raw materials for their factory and was first put to use on 1 July, 2008. At the time of purchase, KUL engaged a professional valuer who put the value of the land at Shs 300 million. KUL sold the land and building to Twekambe Limited on 30 June, 2017 at Shs 1.5 billion. This was to enable them buy land in Nakasongoladistrict to construct a new factory that is in conformity with the environmental laws.

Required:

Compute the capital gain or loss realisedby KUL on the disposal of the land and building in 2017.

(8 marks)
(Total 20 marks)

Question 3

Nalumansi runs a retail shop in Bulindo-Wakiso district. She sells household items, plastics, soft drinks fresh fruits and vegetables. The retail shop has grown over the years and has supported her family. She managed to construct a commercial building from which she derives income.

The following is a summary of her transactions for the period January to December 2017:

Expenses	Shop Shs '000'	Building Shs '000'	Total Shs '000'
Utilities	800	21,000	21,800
Rent	25,000	-	25,000
Transport	1,800	-	1,800
Trading license	500		500
Ground rent		9,000	9,000
Wages	10,700		10,700
Security	50,000		50,000
Medical	2,800		2,800
Repairs	700	5,700	6,400
Painting	3,000	18,000	21,000
Lighting	200	800	1,000
Fuel	<u>1,000</u>	<u>700</u>	<u>1,700</u>
	<u>96,500</u>	<u>55,200</u>	<u>151,700</u>

Income:	Shop	Building	Total
Month	Shs '000'	Shs '000'	Shs '000'
January	4,000	8,000	12,000
February	6,500		6,500
March	7,500		7,500
April	13,500	8,000	21,500
May	5,400		5,400
June	8,120		8,120
July	8,240	8,000	16,240
August	7,542		7,542
September	8,810		8,810
October	12,100	8,000	20,100
November	11,000		11,000
December	<u>12,100</u>		<u>12,100</u>
	<u>104,812</u>	<u>32,000</u>	<u>136,812</u>

Net profit/ loss:

	Shs '000'
Shop	8,312
Building	(23,200)
Total	(14,888)

Required:

- (a) Advise Nalumansi on:
- her chargeable income and tax payable for the year ended 31December, 2017. **(11 marks)**
 - the due dates for filing and paying both provisional and final tax for the year ended 31December, 2017. **(4 marks)**
- (b) With examples, explain the meaning of 'advance assessment' as per the Tax Procedures Code Act 2014. **(5 marks)**
- (Total 20 marks)**

Question 4

- Explain the term 'bill of lading' and state at least **three** importance of a bill of lading in international trade. **(5 marks)**
- Discuss the term 'Authorised Economic Operator' (AEO) and explain any **three** benefits of the scheme to businesses. **(5 marks)**
- Explain the punishment given to a taxpayer convicted of removing or tampering with customs seal under the East African Community Customs Management Act, 2004. **(2 marks)**
- Mujama is a car dealer in Kampala, Uganda and has imported 5 vehicles from Japan each at a cost of USD1,240 cost, insurance and freight (CIF) to Mombasa and the exchange rate during the date of transaction was USD 1 toShs 3,650.

Assume the following rates for:

	Rate (%)
Import duty	25
Withholding tax	6
Value added tax	18
Environmental levy	35

Required:

Compute the taxes payable by Mujamafor the 5 vehicles he imported from Japan. **(8 marks)**

(Total 20 marks)

Question 5

Baltonez Logistics International is a transport and logistics company with its headquarters in Paris, France. The company has a Ugandan branch that has been in operation since 2007, with its main activities being transport and logistics. The Ugandan branch is registered for VAT and had the following transactions during the month of December 2017:

1. 2 December: received rental invoices for office rent and managing director's residence Shs 2 million and Shs 750,000 respectively.
2. 4 December: transported goods from Kampala to Nairobi Shs 65 million.
3. Power and water bills for the office for the month amounted to Shs 500,000.
4. Purchased brand new Toyota Prado for the managing director Shs 169 million.
5. 10 December: transported goods from Nairobi (Kenya) to Mbarara (Uganda) for Shs 18,900,000.
6. Received an invoice for telephone charges for office for the month Shs 1.9 million.
7. 20 December: was contracted by World Food Programme (Kampala office) to transport food supplies to Adjumani (Northern Uganda) for Shs 208 million.
8. Purchased 10 computers from a VAT registered supplier on credit at Shs 35.1 million.
9. Transported petroleum products for Shs 117 million from Mombasa to South Sudan via Uganda.
10. Purchased 2 extra trucks Shs 78 million each. One truck was for cash and the other on credit.
11. Disposed of office furniture worth Shs 26 million during the month.

Assumptions:

- Purchases are VAT inclusive where applicable.
- Sales are VAT exclusive where applicable.

Required:

- (a) Determine the amount of VAT payable or claimable by Baltonez Logistics International for the month of December 2017.
(10 marks)
 - (b) Explain at least **four** circumstances under which a VAT registered taxpayer may claim for VAT refund.
(8 marks)
 - (c) Briefly explain the penalty a VAT registered taxpayer would suffer for late submission and payment of VAT.
(2 marks)
- (Total 20 marks)**

TEST PAPER 5 CPA (U) JUNE 2019

Question 1

Romano Contractors Uganda Limited (RCUL) is a Ugandan company incorporated in 2010. The company's main business activity is general construction and their head office is on Kampala Road in the city centre. The company bought a commercial building complex on Plot 52 Mamdani Road, Kampala, in 2015 for Shs 3.9 billion and incurred expenses of Shs 500 million to renovate it before renting it out with effect from 1 July, 2015.

The following is RCUL's statement of comprehensive income for the year ended 30 June, 2018

	Note	Shs'000'	Shs'000'
Contract income			56,990,268
Cost of sales			<u>(51,582,668)</u>
Gross profit			5,407,600
Other income	1		<u>14,924,013</u>
Total revenue			20,331,613
Less expenses:			
Selling & distribution costs	2	134,617	
Administrative costs	3	<u>3,890,497</u>	<u>(4,025,114)</u>
Profit before interest and tax			16,306,499
Finance cost			<u>(1,151,087)</u>
Profit for the year before tax			15,155,412
Corporate income tax (30%)			<u>(4,546,624)</u>
Net profit for the year after tax			<u><u>10,608,788</u></u>

Notes:

- Other income includes the following:

	Note	Shs '000'
Gross interest	(i)	1,203,173
Rental income from commercial property on Plot 52 Mamdani Road		11,129,295
Realised exchange gain		2,227,258
Unrealised exchange gain		<u>364,287</u>
Total other income		<u><u>14,924,013</u></u>

2. Selling & distribution costs are made up of:

	Shs '000'
Advertisement	27,749
Bribes to the district officials	55,000
Printing 10 signposts at construction sites	9,500
Payment to URA officials for Tax Clearance Certificate	4,500
Uniforms, overcoats, and overalls	25,068
Provision for bad debts	<u>12,800</u>
Total selling & distribution cost	<u>134,617</u>

3. Administrative costs include:

Item	Note	Shs '000'
Audit & Accountancy fees		24,000
Legal expenses		150,605
Stationery & printing		151,873
Rent & rates		187,526
Building repair expenses	(ii)	18,000
Utilities paid		76,208
Repair of machinery		86,750
Management fees	(iii)	150,000
Unrealised exchange loss		3,011
Security costs	(iv)	294,215
Staff travelling costs	(v)	23,501
Staff salaries & welfare		1,527,793
Directors remuneration		180,000
Machine hire costs		104,810
Insurance cost		23,501
Penalty for late submission of value added tax (VAT) returns		4,800
Cleaning & compound maintenance costs	(vi)	13,802
General depreciation of property		179,502
Pay as you earn (PAYE) costs		111,642
Amortisation of prepaid lease rentals	(vii)	177,362
Police fines & penalties		1,916
Annual subscription fees	(viii)	35,000
Vehicle running expenses		424,004
Group life insurance for directors		20,298
Entertainment and end of year party expenses	(ix)	5,413
Income tax paid		<u>14,965</u>
Total administration cost		<u>3,890,497</u>

Additional notes:

- (i) The bank withheld tax on this interest before it was deposited into the account.
 - (ii) The building repairs expense relate to the repairs made on the commercial building at Plot 52 Mamdani road which is being rented out on commercial basis.
 - (iii) The management fees relate to the expatriate engineers hired by the company from Romano Construction International (RCI), a company resident in India, for a period of one month to supervise the set-up of a hanging bridge in Jinja. RCI has numerous construction projects in India and the two shareholders of the company, the Patel brothers live in New Delhi, India.
 - (iv) Half of the security costs is for the office while the balance is for the commercial building on Plot 52 Mamdani Road.
 - (v) 75% of the travel costs relate to expenses for field trips whereas the balance relates to the company bus expenses for transporting staff to and from work.
 - (vi) Cleaning and compound maintenance costs relate to the cleaning and maintenance of the commercial building on Plot 52 Mamdani Road.
 - (vii) Amortisation of prepaid lease rentals: The lease is to run for a period of 10 years and was acquired on 1 July, 2010 at Shs 1,773,620,000.
 - (viii) Subscriptions relate to engineers' membership fees to the Engineers' Association.
 - (ix) This doubled as a Christmas party and staff were encouraged to attend with their family members.
4. Written down values for assets 1 July, 2017:
- | Class | Shs '000' |
|-------|-----------|
| I | 140,603 |
| II | 522,933 |
| III | 714,235 |
| IV | 379,425 |
5. During the year, the following assets were acquired to improve on the company operations.
- | Asset | Shs '000' |
|--|-----------|
| Computers | 11,347 |
| Motor vehicles (salon cars) | 289,068 |
| Plant & machinery used in construction | 206,356 |
| Office furniture, fittings & equipment | 1,174,800 |

6. The company had a taxable loss brought forward from the year ended 30 June, 2017 Shs 1,508,000,000 but had paid provisional tax Shs 1 billion in anticipation of making a taxable profit during the year.
7. The company was not on the list of taxpayers exempted from withholding tax for the year ended 30 June, 2018 and received tax credit certificates as follows:

Details:	Shs 'million'
From tenants at Plot 52 Mamdani Road	660
From suppliers of building materials	120

Required:

- (a) Advise the management of RCUL on their total chargeable income and tax payable on the income for the year ended 30 June, 2018. **(26 marks)**
- (b) Explain the following terms and their treatment as per the Income Tax Act Cap 340:
 - (i) balancing charge. **(2 marks)**
 - (ii) balancing allowance. **(2 marks)**
- (c) Advise the management of RCUL on:
 - (i) the due dates for filing provisional and final income tax returns and the due dates for the payment of provisional and final tax for a company. **(4 marks)**
 - (ii) the penalty charged for late filing and payment of provisional and final income tax. **(2 marks)**
 - (iii) the tax treatment of the professional fees paid to Romano Construction International. **(4 marks)**

(Total 40 marks)

QUESTION 2

- (a) Mr. Joseph Byamungu runs several businesses in Mbarara district, trading as Byamungu and Sons. He operates a shop from his building which doubles as his residence in Mbarara town. He uses 50% of the building as his residence with his family of 10 people. He also owns a mixed farm in Kashari county, Mbarara district.

The building cost him Shs 1 billion to complete in June 2008 and he occupied it on 1 July, 2008. The building was constructed using his personal savings from his employment with the Government of Uganda as Permanent Secretary in the Ministry of Finance and partly by borrowing Shs 400 million from Housing Finance Bank repayable in 15 years' time at an interest rate of 10% per annum. He is now retired and earns monthly pension of Shs 955,000.

Byamungu and Sons' statement of profit or loss and other comprehensive income for the year ended 30 June, 2018 is as below:

Particulars	Note	Shs '000'	Shs '000'
Gross revenue from shop sales			910,000
Cost of sales			<u>(312,560)</u>
Gross profit			597,440
Other income	1		<u>189,000</u>
Total income			786,440
Expenses:			
Salaries & wages	2	24,000	
Water & electricity		7,200	
Transport & fuel	3	6,000	
Depreciation		150,225	
Farm expenses	4	98,500	
Insurance	5	1,200	
Training & education	6	10,500	
Provision for bad debts		4,000	
Donations	7	5,000	
Other business expenses		220,000	<u>(526,625)</u>
Net profit			<u>259,815</u>

Notes:

1. Other income comprises of the following amounts:

	Shs '000'
Interest earned on fixed deposit account	15,000
Dividends from Byansi Ltd (private company)	30,000
Pension	11,460
Farm sales	<u>132,540</u>
	<u>189,000</u>

2. Included in the salaries and wages is Shs 10 million salary earned by Mr. Byamungu.
3. Mr. Byamungu owns two cars, a pickup and Toyota Prado. The pickup is used strictly for business and 80% of the transport and fuel expenses are attributed to the pickup.
4. Mr. Byamungu's family consumes 30% of the farm produce and 70% is sold.
5. Insurance costs include life insurance premium for the life of Mr. Byamungu Shs 620,000. The remaining amount relates to general business insurance.
6. Included in training expenses is an amount Shs 2 million for payment of first year fees at university for Tom Byamungu, the son of the family. He is pursuing a degree in business management.
7. Mr. Byamungu contributed Shs 5 million in a fundraising drive organised by the area member of parliament towards the construction of a road in Kashaari County where his farm is located.
8. Asset details:

Tax written down values of assets 1 July, 2017:

Class	Shs
II	12,569,214
IV	98,395,200

Additions:

A new house for the workers' accommodation was constructed at the farm for Shs 125 million and was first used 1 January, 2018.

9. Provisional tax paid for the year was Shs 80,275,129.
10. The business made some supplies to Mbarara district headquarters and tax Shs 9,050,000 was withheld.

Required:

Compute the chargeable income and tax payable for Mr. Byamungu for the year ended 30 June, 2018.

(16 marks)

- (b) Mr. Byamungu had travelled for business in the United States at the time of filing the return. He was not able to return to Uganda in time to file the return because of flight reschedules due to poor weather conditions. The Revenue Authority's Mbarara office has issued him with an assessment for non-filing of the return.

Required:

Advise Mr. Byamungu on the procedure for objecting to the assessment.

(4 marks)

(Total 20 marks)

Question 3

Technology Plus Uganda Limited (TPUL) was incorporated in March 2010. The company's head office is located in Kanjokya, Kampala and it is registered for income tax, pay as you earn (PAYE) and value added tax (VAT). The company deals in the supply and repair of computers, photocopiers, scanners, and other data handling equipment.

During the month of January 2018, they were awarded a three year contract to supply and repair computers of China Engineering Limited that is supervising the construction of dams in Uganda. The construction of the dams is being funded by World Bank and Government of Uganda.

The following is a summary of TPUL's transactions for the month of September 2018:

Sales: (VAT exclusive where applicable)

- | | |
|---------------|--|
| 1 September: | sold computers to Magezi Distributors Shs 50 million. |
| 2 September: | sold photocopiers to unregistered taxpayers Shs 18 million. |
| 5 September: | serviced computers and servers used by China Engineering Limited Shs 76 million. |
| 10 September: | installed scanners in Kamanzi Hospital, Kigali- Rwanda Shs 38 million. The work took 2 days to complete. |
| 14 September: | donated office furniture valued at Shs 200,000 to Kibawo carpenters. |
| 20 September: | sold security cameras and accessories to Brown, a diplomat who resides in Kololo, Shs 8 million. |

Purchases and expenses: (VAT exclusive where applicable)

- 3 September: paid quarterly rent for September, October and November 2018 for its store located in Naguru Shs 30 million.
- 4 September: received software from Patel electronics, the sole distributor of software in Uganda. This software was specifically to be used in the installation works for China Engineering Limited. It cost Shs 38 million.
- 7 September: paid electricity Shs 5,450,000.
- 10 September: purchased stationery Shs 1,700,500.
- 16 September: imported distribution truck from Japan at cost United States dollar (USD) 25,000, insurance USD 4,000, freight USD 7,000 and import duty at 25%. The exchange rate for the month of September 2018 was USD 1 to Shs 3,300.
- 18 September: purchases fuel for the generator Shs 600,000.
- 20 September: paid Shs 7 million to Karil Food Supplies for the supply of office food.
- 25 September: paid Shs 15.2 million to JM Packaging Limited for the supply of packaging boxes and materials.
- 27 September: received a demand note Shs 12 million from Tamale Consultants as professional fees for work done in August 2018.
- 30 September: paid Shs 16 million to Assured Insurance Company for life insurance services.

Required:

- (a) Advise TPUL on the VAT payable or claimable for the month of September, 2018.

(14 marks)
- (b) TPUL filed the September 2018 VAT returns on 12 November, 2018. Advise on any penalty, if any, that the company is liable to pay.

(2 marks)
- (c) Explain the VAT treatment where a person receives imported services from another person for a consideration.

(4 marks)

(Total 20 marks)

Question 4

- (a) A foreign company can penetrate a foreign market through a number of ways amongst which is establishment of a branch in a foreign state.

Required:

Explain the term 'branch' in accordance with the Income Tax Act, Cap 340.

(4 marks)

- (b) Singa-Singa Limited (SSL) is a non-resident company headquartered in Mauritius and operating in Uganda through a branch, Singa-Singa Uganda Limited (SSUL). SSL's main business activity is provision of financial services. During the year ended 30 June, 2018 the following transactions transpired:

1. SSUL obtained a loan Shs 300 million from its parent company in Mauritius on which interest of 20% was charged by the parent.
2. During the year, SSUL obtained professional services from the parent at a fee Shs 35,825,000.
3. During the same year, SSUL also obtained technical services and an IT software from the parent to improve their operations in Uganda. They were charged Shs 58 million and Shs 25 million respectively by the parent.

In addition, the following information was also presented for your consideration:

On 1 July, 2017 the total cost base of SSUL assets was Shs 1,560,000,000. Its net profit for the year of income ended 30 June, 2018 was Shs 286 million on which 30% tax was payable on this profit. The total cost base SSUL's assets at 30 June, 2018 was Shs 1,391,000,000.

Required:

- (i) Define the term 'management charge' according to the Income Tax Act Cap 340.

(3 marks)

- (ii) Compute the tax deductible on loan interest, professional services, technical services and IT software paid by the SSUL to SSL.

(7 marks)

- (iii) Determine SSUL's repatriated income and tax payable on the repatriated income in accordance with the Income Tax Act, Cap 340.

(6 marks)

(Total 20 marks)

Question 5

- (a) Ms. Spice Nakatudde is the managing director of Naka Confectioneries Limited (NCL). NCL has been in the business of baking all types of cakes, cookies and bread since 2015, using imported wheat flour from Canada.

In March 2018, NCL imported wheat flour at United States dollar (USD) 55,000 free on board (FOB) Vancouver- Mombasa. The shipping company charged USD 8,500 to Mombasa. Mombasa Coast Transporters Ltd (MCTL) transported the wheat flour at USD 3,000 from Mombasa to Nakawa Industrial area, Kampala where the bakery is located. The company also paid insurance USD 1,200 against any damage while the consignment was in transit at sea.

On 5 July, 2018, Ms. Nakatudde attended a conference organised by Uganda Bakers Association. The aim of the conference was to enlighten members on how they can maximise profits in their businesses. She learnt that NCL may be able to make a saving if they imported hard wheat grain.

NCL would mill the grain in Uganda and sell the flour to the local market and also be able to sell the by-product as animal feeds. After buying a milling factory that had been put on auction in August 2018, NCL imported the first consignment of hard wheat grain from Canada in September 2018, USD 30,000 FOB, Vancouver- Mombasa. The shipping company charged them USD 8,500 to Mombasa. MCTL transported the wheat grain at USD 3,000 from Mombasa to Nakawa Industrial area, Kampala where the milling factory is located. NCL also paid insurance of USD 1,200 against any damage while the consignment was in transit at sea.

The following information is also useful:

1. The exchange rate of the Shs to the USD was, March 2018- 3,605.3 and September 2018- 3,655.26
2. Import duty rates

Raw materials	0%
Intermediate goods	10%
Finished goods	25%
3. Wheat flour and wheat grain are described as sensitive products and attract duty of 50% and 35% respectively.

Required:

Compute the taxes due and payable on the importation of both the wheat flour and hard wheat grain.

(14 marks)

- (b) NCL have been informed by their clearing agent that the customs officials have rejected the valuation for the wheat grain and have issued an additional assessment increasing the value. NCL is not willing to pay any additional tax relating to the consignment.

Required:

Advise NCL on the procedure of objecting to the customs assessment.

(6 marks)

(Total 20 marks)

TEST PAPER 6

CPA (U) AUGUST 2019

Question 2

Pal Cosmetics Limited (PCL) is a manufacturing company based in Kampala industrial area. The company manufactures a variety of body care products and has selling outlets in South Sudan. The following transactions relate to the year ended 30 June, 2018:

	Note	Shs
Income:		
Business income from Uganda	2	800,900,000
Business income from South Sudan		<u>700,000,000</u>
		1,500,900,000
Expenditure:		
Capital assets expensed	3	45,000,000
Depreciation		50,000,000
Bad debts provision		55,216,000
Salaries & wages		125,530,000
Employers' contribution to National Social Security Fund (NSSF)		2,213,000
Interest expense		51,000,000
Income tax		150,323,400
Rent & rates		144,150,000
Valuation expenses	5	90,000,000
Marketing expenses		264,487,000
Repairs & maintenance	6	180,000,000
Employers' contribution to PLC's Staff Retirement Fund		124,232,000
Reimbursable expenses		226,635,000
Penalties and fines	7	40,000,000
Token of appreciation to best employees	8	200,000,000
Cash lost	9	300,000,000
Management fee expense	10	150,000,000
Loss due to goods destroyed	11	500,000,000
Total expenses		<u>2,698,786,400</u>
Net loss before tax		<u>(1,197,886,400)</u>

- 1 The opening tax written down values as at 1 July, 2017 was as follows:

Class Shs '000'

I 55,000

II 52,000

III 92,000

IV 251,000

PCL owns a storied factory building which cost Shs 5.2 billion and was put to use on 1 July, 2017. The building contains an elevator which cost Shs 300 million.

An extension to the factory building was constructed at a cost of Shs 400 million and put to use on 31 May, 2018.

- 2 On 1 September, 2017, PCL purchased the following assets:

Shs 'million'

Two 10-ton Tata lorries 84

Bus (50 passenger carrying capacity) 120

HP heavy duty printing machine 80

- 3 Included in business income is Shs 500 million from a major customer which was sent on account for future business transactions.

- 4 The assets expensed were all above Shs 1 million.

- 5 The valuation expense includes incidental expenses of Shs 40 million and Shs 50 million relating to the new Tata lorry and bus respectively.

- 6 Repair and maintenance includes Shs 120 million relating to building a new perimeter wall around the factory premises. This was completed and first put to use on 15 February, 2018. It also includes Shs 20 million spent on acquiring a standby generator and repair expenses of Shs 40 million.

- 7 This relates to Police Express Penalty fees Shs 40 million issued to the company drivers for illegally using Entebbe Express Highway.

- 8 Shs 200 million was given to the best marketing employees as a token of appreciation. This money was not considered for pay as you earn (PAYE) purposes for the period.

- 9 Shs 300 million was misappropriated by the Accountant; PCL was able to recover Shs 200 million after apprehending him. He has since been taken to prison for embezzlement.

- 10 Income of Shs 120 million was transferred to the US dollar account of the Managing Director but he did not provide any related services.

- 11 Goods worth Shs 500 million were destroyed in South Sudan due to war there. The Government of Uganda has promised to compensate the company for the loss before 30 June, 2018.

Required:

- (a) Compute the chargeable income and corporation tax payable by PCL for the year of ended 30 June, 2018. **(16 marks)**
- (b) Due to the war in South Sudan, the company has been advised by their representative in Juba that some customers who had bought goods on credit amounting to Shs 10 million had run bankrupt and therefore the amount owing from these customers would have to be written off as non-recoverable bad debt.

Required:

Explain the circumstances under which PCL will be allowed a deduction for bad debts written off under the Income Tax Act Cap 340.

(4 marks)**(Total 20 marks)****Question 3**

Square Suppliers Ltd (SSL) deals in a variety of goods, both taxable and exempt. SSL is value added tax (VAT) registered. The following transaction took place in the month of June 2019:

Sales: (all VAT inclusive where applicable.)

- 1 Sold medical operating equipment (beds) for Shs 200 million.
- 2 Sold a fridge to a hospital Shs 50 million.
- 3 Supplied maternity (maama) kits to NGO International an internationally registered Non-Government Organisation for Shs 150 million.
- 4 Supplied sugar and soap to MK Enterprises for Shs 120 million.
- 5 Supplied transport services to Racross Limited to transport goods to various parts of Uganda for Shs 180 million.

Purchases and costs: (all exclusive of VAT, where applicable.)

- 1 Purchased 1,000 bags of sugar at Shs 100,000 per bag.
- 2 Rent for the month was Shs 40 million.
- 3 Purchased soap and small bed sheets for making maternity (maama) kits for Shs 90 million.
- 4 Bought a fridge from Capital Shoppers market for Shs 20 million.
- 5 Paid telephone services bill for the month Shs 3 million.
- 6 Paid electricity bill for the month Shs 5,000,000.

Required:

- (a) Compute the VAT payable for SSL for the month of June. **(13 marks)**
 (b) Explain the taxpayer's obligations and rights under the VAT Act Cap 349.

(7 marks)**(Total 20 marks)****Question 4**

- (a) Mr. Brown White a resident individual is a procurement officer of Tailo Oil & Gas Company Ltd. The following was his remuneration for the month of July 2019:

Item	Shs '000'	Note
Basic salary	13,000	
Transport allowance	1,300	
Medical allowance	8,00	
Company house	1,600	Contributes Shs 500,000 per month
Gardener	150	Contributes Shs 20,000 per month
Security guard	300	

Additional information:

- 1 The company provides meals for 26 days in a month, each meal costs Shs 3,000 for officers and Shs 7,000 for directors. Mr. White does not contribute anything to lunch.
- 2 The company gave him a school fees loan Shs 1.2 million at 10% interest per annum. The statutory rate was 15% at the time.
- 3 In the month of July 2019, Mr. Brown White owed a bank Shs 300,000. His employer decided to pay the loan for him on 31 July, 2019 but opted not to recover that amount from him.
- 4 The company transferred a car valued at Shs 25 million to Mr. White in July 2019. He was asked to contribute only Shs 1 million for it.
- 5 The company provided him with a car whose cost and market value was Shs 40 million and Shs 30 million respectively for 183 days in a year for private use. Assume the year of income has 365 days.
- 6 The company contributes 10% of his basic salary towards the National Retirement Fund every month.

Required:

Compute Mr. White's chargeable income and tax liability for the month of July 2019.

(15 marks)

- (b) With the help of examples, explain any **five** employee's relief (Exempt Income).

(5 marks)
(Total 20 marks)

Question 5

Mahogany Furniture Limited (MFL) is one of the leading furniture manufacturers in Kampala. It has 3 branches around Kampala. Given the increasing demand for its furniture, the company's board of directors (the Board) decided to start importing furniture from Malaysia. During the first import consignment, they incurred the following:

Particulars	US \$
Furniture (free on board (FOB))	50,000
Freight to Mombasa	6,000
Transport to Kampala	1,000
Insurance	5,000

The applicable rates of tax are provided as follows:

Import duty	25%
Value added tax	18%
Excise duty	20%
Withholding tax	6%
Infrastructure levy	1.5%

The prevailing US\$ exchange rate for Uganda shillings was 3,700 at the time of importation.

Required:

- (a) (i) Determine customs value and customs taxes applicable to MFL's first consignment.
(10 marks)
- (ii) Explain to the Board of MFL the meaning of the term 'customs warehouse' and the procedure for disposal of warehoused goods.
(6 marks)
- (b) MFL is considering diversifying its operations into real estate business and is seeking your advice about rental tax.

Required:

According to the Income Tax Act Cap 340 explain to the management of MFL the:

- (i) meaning of 'rental income' and 'rental tax'. **(2 marks)**
 - (ii) tax treatment of rental income for individuals and companies. **(2 marks)**
- (Total 20 marks)**

Question 6

- (a) Explain the advantages of internal recruitment of manpower to small and medium-size enterprises (SMEs). **(4 marks)**
 - (b) Describe the features of a partnership business. **(8 marks)**
 - (c) Explain the advantages of buying an existing business. **(8 marks)**
- (Total 20 marks)**

TEST PAPER 7

CPA (U) NOVEMBER 2019

Question 1

- (a) Tweyombeke Microfinance Limited (TML) is a microfinance deposit taking institution regulated and supervised by the Bank of Uganda. The company operates 10 branches in the Western region of the country with its head office in Mbarara town. The company commenced business in Mbarara district in 2010 but has spread into the other districts in greater Ankole region.

The company's statement of profit or loss and other comprehensive income for the year ended 31 December, 2018 was as follows:

Item	Note	Shs '000'
Interest income	1	19,509,300
Interest expense		<u>(6,923,495)</u>
Net interest income		12,585,805
Fee and commission income		2,530,725
Other income	2	<u>500,830</u>
Total operating income		15,617,360
Impairment allowance on loans and advances	3	(890,635)
Employee costs	4	(7,450,850)
Depreciation and amortisation		(780,200)
Other operating expenses	5	<u>(4,930,550)</u>
Total operating expenses		(14,052,235)
Profit before tax		1,565,125
Taxation		<u>(469,537)</u>
Profit for the year		<u>1,095,588</u>

Notes:

1. Interest income comprises of the following amounts:

	Shs '000'
Treasury bills	3,168,000
Loans and advances to customers	13,250,000
Placements with commercial banks	1,342,800
Fixed deposit accounts	<u>1,748,500</u>
	<u>19,509,300</u>

2.	Other income comprises of the following amounts:	Shs '000'
	Unrealised gain on foreign exchange trading	353,877
	Profit on disposal of equipment	92,600
	Miscellaneous	<u>54,353</u>
		<u>500,830</u>
3.	Impairment allowance on loans and advances includes the following amounts:	Shs '000'
	Specific impairment provision	985,600
	General impairment provision	98,760
	Recoveries of loans previously written off	<u>(193,725)</u>
		<u>890,635</u>
4.	Employee costs:	Shs '000'
	Salaries and wages	5,215,595
	NSSF employer's contribution	499,120
	Provision for gratuity payment	385,000
	Medical insurance	490,000
	Staff training	390,520
	Staff welfare (School fees for staff children and the benefit is not taxed from staff)	235,900
	Staff uniforms	73,115
	Staff funeral expenses	45,800
	End of year party for staff and their families	<u>115,800</u>
		<u>7,450,850</u>
5.	Other operating expenses:	Shs '000'
	Rent	240,000
	Motor vehicle maintenance expenses	522,330
	Office supplies	56,870
	Professional expenses	85,000
	Communication expenses	125,900
	Unrealised foreign exchange losses	375,800
	Direct loan costs	1,010,080
	Seminars and conferences	340,000
	Licences	156,000
	Insurance expense	259,000

	Shs '000'
Withholding tax paid	300,500
Security expenses	117,800
Entertainment expenses	79,650
Statutory expenses-stamp duty on increase of share capital	23,000
Provision for unexpected losses	220,000
Installation of core banking software	1,000,000
Penalties paid to Bank of Uganda	<u>18,620</u>
	<u>4,930,550</u>

6. Property plant and equipment.

- Tax written down values of the assets as at 1 January, 2018 were as below:

Class	Shs '000'
I	15,600
II	18,250
III	28,510
IV	129,320

- Additions during the year included the following:

	Shs '000'
25 desktop computers	87,500
50 office chairs	20,000
Mercedes Benz for use by the managing director	200,000

- The company sold an old bullion van that had cost Shs 350 million, and had a net book value of Shs 120 million, at Shs 212.6 million.

7. The company paid provisional tax for the year ended 31 December, 2018 of Shs 100 million.

Required:

- (i) Compute the chargeable income and tax payable/refundable by TML for the year ended 31 December, 2018.

(13 marks)

- (ii) Compute the capital allowances due to TML for the year ended 31 December, 2018.

(8 marks)

- (b) TML is adopting the policy of sponsoring some vulnerable members of the community as part of their corporate social responsibility. The company will be donating a substantial amount in the year commencing January 2020 towards the education of needy children and disabled adults in greater Ankole region. They have targeted to sponsor individuals in both government and private educational institutions. They will be making the payments directly to the individuals sponsored. The total amount they expect to spend on this noble cause in the year 2020 is expected to be Shs 500 million.

Required:

Advise the management of TML on the tax implications of implementing the new policy and on the most tax efficient way this policy can benefit the company.

(6 marks)

- (c) TML received an audit commencement letter from Uganda Revenue Authority (URA) for the period 2014 to 2018. This was after a disgruntled staff member decided to action as a “whistleblower” and informed URA that several staff allowances were not taxed under PAYE. The URA team leader approached management with a proposal to pay him a small amount so that they write a favourable report and also reduce the tax payable by three quarters as well as waive the penalty due. The management of TML has come to you as their tax consultant to confirm to them whether they should consider the proposal and avoid paying the taxes due.

Required:

- (i) Advise the management of TML on whether they should agree to the proposal by the URA team leader, explaining the importance of acting with integrity in tax matters.

(9 marks)

- (ii) Explain what you understand by the term “tax evasion” and the consequences of tax evasion.

(4 marks)

(Total 40 marks)

Question 2

Kasubi, Kagolo and Kalungi are medical doctors specialised in different medical fields who established Goodwill Doctors Clinic located in Kampala. Kasubi is a physician, Kagolo is a gynecologist while Kalungi is an optician.

They started their clinic in 2010 in rented premises. They have a written partnership agreement. At the time of starting the clinic, they agreed to pool their savings together, each according to what he could afford, in order to purchase the medical equipment that they would need. Their contributions were Kasubi - 100 million, Kagolo - 200 million and Kalungi - 300 million.

They also agreed that in order to compensate their effort, the partnership would pay each partner interest on capital at 10% per annum. They agreed on a profit sharing ratio of 3:2:1 to Kasubi, Kagolo and Kalungi respectively.

They agreed that in order to discourage each other from making drawings out of the partnership for it to grow, the partnership would charge interest on drawings of 5% per annum.

However, in consideration of the fact that they would need some upkeep, they agreed that each one of them would be paid a monthly salary of: Kasubi - Shs 10 million, Kagolo – Shs 8 million and Kalungi – Shs 6 million.

The partnership's statement of profit or loss and other comprehensive income for the year ended 31 December, 2018 was given below:

Item	Notes	Shs '000'
Total revenue		1,573,000
Less expenses		
Rent		150,000
Salaries	1	450,000
Audit and accounting expenses		5,000
Clinic consumables		12,800
Depreciation		279,000
Travelling & communication		275,500
Interest paid	2	160,000
Repairs of hospital equipment		120,000
Bad debts written off		43,000
Staff training		<u>30,900</u>
Total expenses		(1,526,200)
Net profit		46,800

Notes:

1. The amount includes the partners' salaries.
2. The amount included the interest paid on the partners' capital while the balance was paid to Bingwa Commercial Bank to service a loan.
3. The tax written down values of the assets were as below:

Class	Shs '000'
I	26,325
II	108,280
IV	176,300

No assets were bought nor sold during the year.
4. No partner made any drawings during the year.

Required:

- (a) Compute the partnership distributable profit for the year ended 31 December, 2018.

(11 marks)
- (b) Determine the tax liability for each partner.

(6 marks)
- (c) Explain to the partners of Goodwill Doctors Clinic the principles of taxation of partnerships in accordance with Section 65 of the Income Tax Act.

(3 marks)

(Total 20 marks)

Question 3

- (a) Rodrich Otahunga operates a supermarket, Rodrich Supermarket Ltd in Mbarara town. The supermarket deals in various goods. He imports all his merchandise directly from various countries including Kenya, United Arab Emirates and South African. The supermarket has been registered for VAT for a number of years.

In order to maintain the royalty of his customers, Rodrich gives a trade discount of 5% to all his customers who purchase items of Shs 20 million or more and he always confirms that the traders are registered for VAT before dealing with them.

During the month of September 2019, the summary of his transactions were as below:

Imports (VAT inclusive where applicable):

Date	Item	Country of origin	Amount (USD)
2	New clothing	United Arab Emirates	29,000
5	Wheat flour	South Africa	26,000
12	Animal feeds and premixes	Kenya	12,500
12	Drugs	Kenya	14,600
19	Mobile phone handsets	United Arab Emirates	27,500
25	Cooking oil	South Africa	22,000

Payments for services (VAT inclusive where applicable):

Date	Description	Amount Shs '000'
3	Paid rent for September	10,000
8	Paid electricity bill	1,500
10	Paid telephone bill	2,000
30	Cleaning services	1,000
30	Security services	600

Sales (VAT exclusive where applicable)

Date	Description	Amount Shs '000'
1	Sold sugar on credit to Massa of Ibanda	80,000
6	Sold animal feeds - cash to various customers	13,000
8	Sold clothing – cash to various customers	29,000
12	Sold wheat flour on credit to Kankunda of Isingiro	100,000
14	Sold mobile phone handsets – cash to various customers	26,000
18	Sold drugs – cash to various customers	18,000

Notes:

1. Sales are all before any trade discounts, where applicable.
2. The exchange rate for USD for the month of September was Shs 3,650.
3. During the month of January 2019, the supermarket sold goods on credit worth Shs 15.5 million VAT exclusive to Mr. Byangire of Mbarara. He unfortunately fell sick soon after and eventually died in September 2019 before the money was recovered.
4. The company had no offset brought forward from August 2019.

Required:

Advise Rodrich Supermarket Ltd on:

- (i) the VAT payable or claimable for the month of September 2019.

(13 marks)

- (ii) whether they can claim the VAT due on the sales made to the Late Byangire in January 2019 in their VAT return of September 2019.

(3 marks)

- (b) Mr Rodrich Otahunga does not want to pay VAT anymore and is considering applying to the Commissioner to deregister for VAT.

Required:

Explain to Mr. Otahunga the reasons why the Commissioner may not agree to deregister his company.

(4 marks)

(Total 20 marks)

Question 4

- (a) Makatu Uganda Limited is an investment company whose business is to invest in various forms of businesses both in Uganda and abroad. The company mainly buys shares in various companies as well as investing in financial and non financial institutions. The company also owns residential apartments in Kampala that are rented out.

The company's transactions during the year ended 31 December, 2018 comprised of the following:

Income:

	Shs '000'
Interest from treasury bills by Bank of Uganda	20,000,000
Dividend from Biashara Uganda Ltd, a company listed on Uganda Securities Exchange	1,800,000
Interest from Global Bank Ltd in Mauritius	3,000,000
Dividend from Cole UK Limited (private company based in the United Kingdom)	2,900,000
Dividend from Makura Uganda Limited	3,000,000
Interest on fixed deposit account in Tweweyo Commercial Bank of Uganda	2,500,000
Rental income	<u>1,500,000</u>
	<u>34,700,000</u>

Expenses:

	Shs '000'
Expenses related to treasury bills	200,000
Bank charges to Tweweyo Commercial Bank of Uganda	1,750,000
Brokerage charges to CMT Limited in relation to investment in shares in Uganda	245,000
Brokerage fees to Worldwide Limited in relation to investment in shares abroad	49,000
Rent for office space	30,000
Office supplies	12,000
Security services at the rental apartments	4,800
Painting and repairs of the rental apartments	<u>35,000</u>
	<u>2,325,800</u>

Other information:

1. Uganda has double taxation agreements with Mauritius and United Kingdom which provides for the rate of withholding tax on passive income (interest and dividends) at 10% and 15% respectively.
2. The income received is gross of tax but withholding tax was deducted at source, where applicable.
3. Makatu Uganda Limited owns 90% of the shares in Makura Uganda Limited.

Required:

Compute the chargeable income and tax payable by Makatu Uganda Limited for the year ended 31 December, 2018.

(14 marks)

- (b) Mr Makatu Lawrence, the managing director and major shareholder of Makatu Uganda Limited has not been in agreement with the other shareholders. The board is of the view that the company be voluntarily liquidated and a new company with agreeable shareholders be incorporated. However, he has been informed that the transaction may lead to taxation by Uganda Revenue Authority as the receipts received by the shareholders may be deemed as dividend.

Required:

Advise Mr. Makatu on whether the transaction may be subjected to tax explaining to him what constitutes a dividend in accordance with the provisions of the Income Tax Act.

(6 marks)

(Total 20 marks)

Question 5

- (a) Mr. Rukundo deals in finished cotton textiles imported from India and Netherlands. On 30 November 2019, he imported 1,000 bales of printed Kitenge from Netherlands. Printed Kitenge is a sensitive item according to the East African Community Common External tariff. He incurred the following costs:

1. Commercial invoice paid to the supplier in Netherlands USD 30,000.
2. Shipping expenses from Rotterdam to Mombasa USD 2,500.
3. Insurance expenses on the ship USD 600.
4. Transport from Mombasa port to Kampala KShs 100,000.
5. Storage expenses in Rotterdam USD 400.
6. Storage expenses at Mombasa KShs 10,000.

The following additional information is available:

1. The exchange rate of US\$ to USD in September 2019 was 3,680.
2. The exchange rate of US\$ to KShs was 28.
3. Value Added Tax (VAT) rate 18% and Withholding tax (WHT) rate 6%.
4. Import duty: finished goods 25%, intermediate goods 10%, raw materials 0% and sensitive item 50%.
5. Mr. Rukundo was not considered as a tax compliant payer by URA when they released the list of taxpayers exempted from tax for the period July to December 2019.

During the process of clearing the cargo, the Uganda Revenue Authority customs officer discovered that some textile bales equivalent to a customs value of USD 1,500 had been concealed and not declared for customs purposes.

Required:

Advise Mr. Rukundo on the:

- (i) taxes payable on the import of textiles.

(8 marks)

- (ii) consequences of concealment of goods and the likely penalties.

(4 marks)

- (b) The Authorised Economic Operators (AEO) is a trade facilitation initiative derived from the World Customs Organisation (WCO) framework known as the Safe Framework of Standards commonly referred to as the SAFE. Uganda Revenue Authority has adopted AEO and is currently encouraging all companies that qualify to use the AEO status because of the benefits the companies will derive.

Required:

Explain the short and long term benefits a company will derive from applying to have the AEO status.

(8 marks)

(Total 20 marks)

TEST PAPER 8

CPA (U) DECEMBER 2020

Question 1

- (a) Progressive Transporters Uganda Limited (PTUL), a private company incorporated in Uganda, is engaged in the transportation of goods and logistics supplies. The company transports goods both in and outside Uganda.

The shareholders of the company are Progressive Transporters International (PTIL), a company incorporated in South Africa and Logistics Uganda Limited (LUL) a private company incorporated in Uganda. The sole shareholder of LUL is Mr. Makamazibu, who is the Chairman Board of Directors (BOD) of PTUL. PTIL owns 90% of the ordinary share capital of PTUL while the remaining 10% is owned by LUL. The head office of the company is located in Jinja, with branch offices in Kampala and Mbarara districts.

The following is PTUL's statement of profit or loss and other comprehensive income for the year ended 30 June, 2019.

	Note	Shs '000'
Revenue		77,692,100
Direct costs		<u>(43,262,604)</u>
Gross profit		34,429,496
Other income	1	<u>2,100,000</u>
		36,529,496
Operating Expenses	2	(10,785,138)
Administrative expenses	3	(21,965,538)
Other general expenses	4	<u>(1,626,870)</u>
Operating profit		2,151,950
Finance costs	5	<u>(230,000)</u>
Profit before tax		<u>1,921,950</u>

Notes

1. Included in other income are the following:

	Shs '000'
Interest earned on treasury bills	1,400,000
Interest earned on fixed deposit account	600,000
Gain on sale of fixed assets	<u>100,000</u>
	<u>2,100,000</u>

2. Included in operating expenses are the following amounts:

	Note	Shs '000'
Power and fuel		1,604,000
Rent for office and parking space		2,233,000
Construction of new roofed parking area in Kampala.	6	1,456,900
Internet and communication		321,238
Repairs and maintenance	7	2,870,000
Management fees	8	2,000,000
Interim dividends paid		<u>300,000</u>
		<u>10,785,138</u>

3. Administrative expenses include:

	Shs '000'
Salaries and wages	11,298,500
Bad debts	1,530,000
Provision for doubtful debts	1,378,000
Auditors remuneration	900,500
Depreciation of property	3,212,476
End of year staff party	156,000
Drivers' subsistence allowances	<u>3,490,062</u>
	<u>21,965,538</u>

4. Other general expenses:

	Shs '000'
Traffic offences express penalties	159,000
Security costs	200,500
Car washing and cleaning costs	226,700
Weigh bridge load violation penalty paid to the National Roads Authority	135,000
Purchase of Land in Mbarara	200,000
Contribution to Area member of Parliament campaigns	100,000
Penalty for late filing of Value Added Tax returns	153,500
Donation to Jinja Municipality for organising National independence celebrations	100,000
Loss on disposal of equipment	252,170
Office consumables	<u>100,000</u>
	<u>1,626,870</u>

5. Finance costs include the following:

- Interest of Shs 30 million paid on loan from a commercial bank to buy land. The land is not yet developed and the company hopes to diversify into agriculture in future to utilize the land.
- Interest of Shs 150 million paid on loan from PTIL that was used to purchase new trucks for the business.

- Shs 50 million as interest on the overdraft obtained from the company bankers to finance working capital.
6. Shs 500 million of this amount was the cost of procuring the land on which the parking yard is constructed. The parking yard was used in business for 150 days during the year of income ended 30 June, 2019.
 7. Included in the repairs and maintenance costs is an amount of Shs 50 million for replacing one of the trailer mounted containers that was damaged beyond repair in an accident.
 8. Management fees Shs 1.5 billion was paid to PTIL for the professional work done to advertise and brand the company. Shs 500 million was paid to LUL for providing professional services in procuring warehouses for storage of goods. PTUL however has a fully functional marketing department whose staff does the procurement of warehouses.
 9. Information relating to property, plant and equipment
Tax written down values as at 1 July, 2018.

Class	Shs '000'
1	129,600
2	327,650
3	1,350,250
4	<u>87,750</u>
Total	<u>1,895,250</u>

Additions during the year ended 30 June, 2019:

	Shs '000'
Five 10-ton trucks each at	80,000
9 Trailers each at	180,000
Computers	32,000
Mercedes Benz for the use of the chairman Board of Directors	250,000
Five 3-Ton pickups each at	40,000
Fixtures and Fittings	282,100
Equipment	100,000

Disposals during the year ended 30 June, 2019:

	Shs '000'
15 old trailers each at	50,000
Furniture and equipment	135,750

10. The provisional tax paid for the year ended 30 June 2019 was Shs 500 million paid on 31 December, 2018. The tax computed for the year ended 30 June, 2018 was Shs 1,378,294,000 which had all

been paid by the due dates. The tax return for the year ended 30 June, 2019 was filed on 30 April 2020, the date on which the tax due was also paid. The company had not obtained approval for extension to file the return for the period.

Required:

- (i) Compute PTUL's chargeable income and tax payable for the year ended 30 June, 2019.

(24 marks)

- (ii) Advise the company on any penalties payable, if any.

(4 marks)

- (b) The company has expanded and the tax payable increases as the company grows. The Chairman BOD of the company is specifically concerned that all the profits that should have been retained in business are continuously being paid to the Revenue Authority. He thinks the business may close soon and therefore he needs to get ways in which the taxes can be reduced. He has approached you as an expert to advice on the different ways that the business can be structured in order to minimize tax payments.

Required:

- (i) Advise the Chairman BOD on the different income tax planning areas available to the company's kind of business.

(6 marks)

- (ii) Explain the meaning of 'aggressive tax planning' and the ethical and legal consequences of the process

(6 marks)

(Total 40 marks)

QUESTION 2

- (a) Mr Tom Kabiito works as the regional representative of Save the World, a non-government organisation in Fort Portal, Western Uganda. Save the World is a global organisation whose aim is to sensitize people about global warming. In Uganda, the head office is located in Kampala with four regional representative offices countrywide.

Mr Kabiito's monthly emoluments and allowances are as below:

1. Gross salary of Shs 5 million.

2. Housing allowance of Shs 1 million. Mr Kabiito lives in his own house which he constructed several years ago.
3. Organisation motor vehicle that he uses for both organisation work and private work. The vehicle cost Shs 120 million and was availed to him for use as the first user on 1 July, 2016.
4. Allowance of Shs 500,000 per night whenever he travels to Kampala for work and on average spends 4 nights per month while on duty in Kampala. This money is spent on accommodation and meals and accountability is availed.
5. Lunch allowance Shs 400,000.
6. Medical allowance Shs 200,000.
7. His employer gave him a loan of Shs 24 million to buy some Friesian cows in July 2018. The loan is interest free and is to be recovered from his salary in 12 monthly installments.

Other incomes:

Mr Kabiito received gratuity of Shs 100 million from his previous job which he saved on a 10 year fixed deposit account on which he earns interest at 14% per annum. He also owns some shares in New Mission Ltd a public company and he received gross dividends of Shs 1,650,000.

He also has a small grocery shop in Mpanga market which is run by his wife and the income and expenditure statement for the shop for the year ended 30 June, 2019 is as below:

	Shs
Sales	148,590,000
Less expenses	
Purchases	(135,872,000)
Rent	(1,200,000)
Utilities	(600,000)
Home expenses	(3,595,200)
Profit	<u>7,322,800</u>

Tax in respect of the grocery shop was paid under the small business (presumptive tax) regime.

Other information:

The statutory rate as at 1 July, 2018 was 11%.

Required:

Compute Mr Kabiito's chargeable income and tax payable for the year ended 30 June, 2019 explaining in detail how the amounts were determined.

(12 marks)

- (b) The Revenue Authority staff made default estimated assessments for Mr Kabiito for the years ended 30 June, 2017 and 2018 on 20 January 2020, with estimated tax payable of Shs 10.5 million and Shs 12.3 million respectively. This was after an official had done a field visit at the shop. Mr Kabiito has come to you his tax agent for advice on what should be done with the assessments and the consequences in the event that the tax is not paid.

Required:

Advise Mr Kabiito on the objection to an excessive assessment process in regard to the information provided above.

(8 marks)

(Total 20 marks)

Question 3

- (a) Mubisi Bottling Uganda Limited (MBUL) manufactures soft drinks made out of Banana Juice, known as Chamuks. The company imports some of the raw materials including industrial white Sugar from Brazil. The bulk of raw materials, bananas, are however locally sourced, and processed at the factory.

The imported white sugar is exempted from import duty but the local sales are subject to excise duty of 13% of the ex-factory value. The company distributes its products through dealers who usually pick the goods from the factory.

MBUL is registered for all taxes including Value Added Tax (VAT) and Excise duty.

The transactions for the company during the month of March 2020 were as below.

Imports (VAT exclusive):

Item	Shs '000'
Brown Sugar	2,500,000
Reagents	4,750,000
Motor vehicle – Bus for staff transportation	75,000
Factory spare-parts	370,900
Packaging materials	560,000

Payments for expenses (VAT inclusive where applicable):

Item	Shs '000'
Telephone	23,000
Security	15,000
Health insurance for staff	56,300

Rent	200,000
Diesel and petrol supply	345,000

Local sales (ex-factory and VAT exclusive):

Item	Shs '000'
Sale of Chamuks to Real Distributors Kampala	960,000
Sale of Chamuks to Bamweyana wholesalers in Masaka	480,000
Sale of Chamuks to Gulu Highflier Distributors	520,000
Sale of Chamuks to Mbarara Tukore Distributors	475,000
Sale of old Lorry	50,000

Exports (ex-factory and VAT exclusive):

Item	USD
Paymoo Drinks South Sudan	100,000
Dongtho Happy Suppliers - DRC	60,000

Other information:

1. Products worth Shs 90 million (VAT inclusive) earlier supplied to Mbarara Tukore Suppliers were found damaged and were returned to the factory.
2. There was a dispute with Mwebe Distributors in Mubende in December 2017 and as a result, the supplier refused to pay Shs 400 million (VAT inclusive) demanded. All avenues of claiming the money were pursued and judgment delivered on 5 March, 2020 in a commercial court. It was ruled that Mwebe distributors is not liable to pay. The company has decided not to appeal the case.
3. The staff is entitled to 2 crates of Chamuks drink every first Friday of the month. During the month of March 2020, the drinks given to staff were worth Shs 45 million.
4. The average exchange rate for exports for the month was USD 1 = Shs 3,700

Required:

Compute the VAT payable or claimable by MBUL for the month of March 2020.

(15 marks)

- (b) MBUL will be using the services of a renowned manufacturer based in the United States of America (USA), Fruit Drinks International (FDI), to assist them improve on the products and also introduce other products made out of other fruits grown in Uganda. FDI will examine the formula that will be used while in USA and will send back comments with a few engineers to implement. They will also send an invoice for their input.

Required:

Advise MBUL on the VAT implications of the arrangement above.

(5 marks)

(Total 20 marks)

Question 4

- (a) Baruka Uganda Limited (BUL) bought land in Kampala in February 2015 at a cost of Shs 200 million. The company spent the following amounts in order to transfer the land title to its names.

	Shs
Transfer fees	1,500,000
Stamp duty	3,000,000
Search fees	10,000
Lawyer's consultation fees	2,500,000
Surveyor's fees	1,200,000

In July 2018, the company constructed a building worth Shs 90 million which it intended to hire out as a warehouse. Due to the excessive rain during that year, the area got flooded and the building could not be used for the intended purpose. Shs 20 million was paid to a construction company to make proper drainage channels around the premises. However, the management of BUL later made a decision to sell the land and developments thereon to an investor from China, China Overseas Construction Limited (COCL). The consideration received was USD 140,000 on 20 December, 2019.

The rate of exchange of the Shilling to the USD in December 2019 was 1 USD = Sh 3,650

Required:

- (i) Explain to management of BUL the meaning of a 'business asset' within the context of the provisions of the Income Tax Act.

(2 marks)

- (ii) Advise Management on the income tax implications of the above transactions on land to the company.

(7 marks)

- (b) Byabuza Bank Uganda Limited (BBUL) is a company incorporated in 1990 and has been in the business of commercial banking. The company purchased a property in a prime residential area in Kampala comprising of land and building for use as residence for its managing director in January 1991 for Shs 118 million. BBUL policy has now changed such that they no longer provide accommodation for staff. They have received an offer of

Shs 400 million from a property developer for the land since he will have to demolish the building and redevelop it according to the updated planning by the city authority. BBUL is not sure of the tax implications of the transaction, if they are to sell and they have contacted you for advice.

The following information is available:

Consumer price index for the month ending:

Date:	Price index
31 March, 1998	183.15
31 December, 1990	152.76

The Chief Government Valuer was not able to provide the value of the property as at 31 March, 1998.

All assets of the bank had been valued as at 31 December, 1997 and the value of the property placed at Shs 155 million.

Required:

- (i) Explain to the bank the transitional provisions in the Income Tax Act regarding capital gains.

(5 marks)

- (ii) Advise the bank on the capital gains tax payable, if any, in case they proceed and sell the property at Shs 400 million.

(6 marks)

(Total 20 marks)

Question 5

- (a) Mr. Okoth borrowed USD 100,000 from People's Bank of Uganda on 1 December, 2019 at an interest rate of 4% for the sole purpose of importing a shoe making machine from Yuwan Company Limited in Guangzhou, China. The company specialises in manufacturing shoe making machines of the brand "Walkin" which they have patented. For anyone to produce and sale "Walkin" shoes, they must purchase the machinery from Yuwan Company and pay a royalty of USD 20,000 to allow them use the machine to manufacture from outside China. Yuwan Company is the sole manufacturer of "Walkin" shoes in China.

The cost of the machine on the commercial invoice (ex-factory) issued on 1 February, 2020 was USD 100,000. This is the invoice that was presented to the customs officer at the Busia Border on 15 February, 2020. The Customs officer however, had information that an identical machine was imported by Mr. Bukenya on 15 October, 2019 at USD 110,000. Mr. Okoth argued that Yuwan Company had given him a discount of USD

10,000. On further scrutiny of the invoice and accompanying documents, the officer confirmed that indeed a trade discount of USD 10,000 had been granted to Mr. Okoth.

The other information relating to the import of the machine includes the following:

1. Storage charges at the Guangzhou Harbour before loading on the ship USD 1,800.
2. Shipping charges from Guangzhou to the port of Mombasa in Kenya USD 4,000.
3. Marine insurance USD 1,900.
4. Transport from Mombasa to Busia Boarder post USD 2,000.
5. Insurance charges and transport from the boarder at Busia to Kampala USD 1,000.

The following information is also available

- Exchange rate of the USD 1= Shs 3,675.
- Other rates:

	Rate %
Import duty (finished products)	25
Import duty (intermediate products)	10
Import duty (raw materials)	0
Infrastructure development	1.5
Withholding tax	6

When Mr. Okoth's goods were inspected at Busia border, the revenue officers found books which contained pornographic materials concealed within the cargo.

Required:

- (a) Advise Mr. Okoth on the:
 - (i) total taxes payable on importation of the shoe making machine into Uganda.
(10 marks)
 - (ii) tax consequences that he is likely to face as a result of the pornographic materials being discovered in his cargo.
(5 marks)
- (b) Explain the benefits of single customs territory to tax residents within the East African Community region.
(5 marks)

(Total 20 marks)

TEST PAPER 9

CPA (U) MARCH 2021

Question 1

- (a) Kaawa Uganda Limited (KUL), a private limited liability company registered in Uganda, has been engaged in the business of growing, processing and export of coffee since 1 July 2016. The company owns a large coffee farm in Mubende district but the coffee processing is carried out in Kampala, where the company owns a processing and packaging factory in Nakawa industrial area.

The company's shareholding is 90% by Great Coffee Inc, a company incorporated in the United Kingdom and 10% by Mr. Mawanvu, a resident in Uganda.

The transportation of the raw coffee from the farm to the factory and the processed coffee to the port of Mombasa in Kenya is done by Kaawa Transporters Limited, which is owned 80% by Great Coffee Inc and 20% by Mr Mawanvu.

The company's statement of profit or loss and other comprehensive income for the year ended 30 June, 2020 was as follows:

	Note	Shs '000'
Revenue	1	23,535,220
Cost of sales	2	<u>(6,870,900)</u>
Gross profit		16,664,320
Administrative expenses	3	(7,214,300)
Selling and distribution expenses	4	(5,895,700)
Finance costs	5	(450,000)
Other expenses	6	<u>(620,000)</u>
Net profit before tax		2,484,320
Tax		<u>(745,296)</u>
Net profit after tax		<u>1,739,024</u>

The following information is available:

- Included in the revenue are the following amounts:

	Shs '000'
Exports of coffee	19,200,000
Local sales of coffee husks	4,200,000
Unrealised foreign exchange gains	135,220

2. Included in the cost of sales is:
 - An amount of Shs 150 million that was used for expanding the labour quarters at the farm. This amount was expensed as normal farm expenses.
 - An amount of Shs 15 million paid to purchase farm inputs from Makenke Traders in Mubende town. Makenke Traders do not have a tax identification number (TIN).
3. The administrative expenses include the following amounts:

Particular	Shs '000'
Salaries and wages	3,395,000
Depreciation	1,978,000
Audit fees	60,000
Provision for bad and doubtful debts	215,460
Water and electricity at the farm and factory	352,800
Water and electricity at the home of the Managing Director's home in Kampala (he does not pay tax on the benefit)	22,500
Tuition fees (Farm manager for a 2 year Master's degree in Business Management)	5,380
Staff party at Sanvura Hotel in Fort Portal (with spouses)	55,000
Staff lunch at staff canteen	302,000
Motor vehicle and machine repairs	400,000
Annual subscriptions to National Agricultural Research organisation	40,000
Unrealised foreign exchange losses	168,160
Loss on sale of fixed assets	140,000
Licence fees	15,000
Penalties by NEMA imposed at the factory	40,000
Police express penalties on company drivers	<u>25,000</u>
Total	<u>7,214,300</u>

4. Selling and distribution expenses include:
- | | Shs'000' |
|--|------------------|
| Donation to Uganda Manufacturers Association (the association has an exemption certificate from URA) | 130,000 |
| Donation to Makerere University Agriculture Department (research in new methods of improving coffee) | 250,000 |
| Advertising campaigns | 2,897,500 |
| Staff field allowances | 1,680,000 |
| Motor vehicle fuel | <u>938,200</u> |
| Total | <u>5,895,700</u> |
5. Finance costs comprise of the following:
- Interest of Shs 320 million paid to Great Coffee Inc for the loan advanced to finance working capital.
 - Shs 130 million was paid to Global Commercial Bank to service the ongoing loan.
6. Included in other expenses is an amount of Shs 120 million that was an amount advanced to senior staff members as school fees for their children at Modern International School in Kampala. No taxes are paid on the benefit.
7. Asset additions and disposals:
- Written down balances as at 30 June, 2019:

Class:	Shs '000'
I	125,475
II	230,800
III	1,342,623
IV	<u>486,980</u>
Total	<u>2,185,878</u>
 - The qualifying cost for the factory building when it was first put to use on 1 July, 2016 was Shs 1.8 billion and 20% of the building is used as office space.
 - Assets acquired during the year ended 30 June, 2020.

Asset	Shs 'million'
10 coffee colour sorters to be used at the farm in Mubende at Shs 50 million each	500
Construction of a green house	180
Extension of water drainage channels	50
10 lorries of capacity 10 tons at Shs 85 million each	850
Replacement of the coffee processor at Nakawa Industrial Area	1,000

- Disposal of assets during the year ended 30 June, 2020.
The old processor was sold for Shs 450 million but the net book value at the time of sale was Shs 590 million.
8. The company paid provisional tax of Shs 592,890,000 on 30 June 2020. The self assessment return of the company indicated that there was a loss carried forward of Shs 901,330,400 as at 30 June 2019.
 9. The final income tax was filed on 31 January, 2021 and the company had not requested for an extension of the due date for filing.

Required:

- (i) Compute KUL's chargeable income and tax payable for the year ended 30 June, 2020.
(26 marks)
- (ii) Advise KUL on any penalties and or interest due on filing the return on 31 January, 2021.
(4 marks)

- (b) Mr. Mawanvu attended a tax awareness seminar organised by Big & Tall Certified Public Accountants (BT CPA). During the seminar, the tax partner of BT CPA mentioned that when a person is trading through many related companies, there are ways one can plan his taxes and be able to minimise taxes payable. Since Mr. Mawanvu is a shareholder in both Kaawa Uganda Limited and Kaawa Transporters Limited, he found the topic useful but did not understand how tax planning could help him in particular. He has approached you as a tax expert to help him out.

Required:

Explain to Mr. Mawanvu the meaning of tax planning advising him on the planning ideas that would be of help in his type of business.

(Hint: Please limit your comments to income tax only)

(10 marks)
(Total 40 marks)

Question 2

Mr Byakatonda Severino who owns a permanent home in Buwaate, Wakiso district, has been employed as an accountant by Big Trail Limited, a company that deals in the distribution of various imported merchandise since July 2017.

The following were his terms of employment on commencement of employment on 1 July, 2017.

1. Monthly gross salary Shs 12 million.
2. Medical insurance card for self, spouse and four dependants for a maximum cover of Shs 10 million per person for both in and outpatient care.
3. Use of a company vehicle for both official and private purposes. He was availed a vehicle that cost Shs 150 million on 30 June, 2017 as the first user.
4. Entitled to bonus payment equivalent to one month's salary payable in June, once the performance target for the year is accomplished.
5. Lunch and entertainment allowances Shs 400,000 and Shs 2 million per month respectively.
6. The company will pay for his health club membership at Shs 1.5 million per month.
7. The company will pay the annual subscription fees to the Institute of Certified Public Accountants, where Mr Byakatonda is a member.

Other information:

During the year ended 30 June 2020, the company paid annual membership fees to ICPAU of Shs 550,000 and he surpassed his performance target by 15%.

Before taking up appointment with Big Trail Limited, Mr. Byakatonda had constructed six rental houses near his home in Buwaate. He acquired a mortgage of Shs 100 million from Popular Commercial Bank in 2018 in order to complete the houses and they were each hired out at Shs 1 million per month with effect from 1 January, 2019.

In addition to payment of mortgage interest of Shs 12.5 million during the year ended 30 June 2020, Mr. Byakatonda also paid the following towards maintaining the rental houses:

Details	Shs '000'
Security guards	2,840
Property rates	2,000
Maintenance	10,000

Required:

- (a) Compute Mr. Byakatonda Severino's chargeable income and tax liability for the year ended 30 June 2020, explaining clearly why some incomes may have been omitted.
(13 marks)
- (b) Explain the circumstances under which an individual taxpayer is considered to be resident under the provisions of the Income Tax Act Cap 340.
(4 marks)
- (c) Differentiate the tax treatment of income earned by a non resident individual from that of a resident individual.

(3 marks)

(Total 20 marks)

Question 3

- (a) Wire Technologies Uganda Limited is a subsidiary of Wire Technologies International Ltd, incorporated in the Netherlands. The company provides services in the telecommunications sector in Uganda and abroad. The company is registered for all the tax heads and has been registered for VAT since June 2010.

The transactions for the company for the month of December 2020 are as follows:

Revenue from services provided:

Customer	Amount (USD)
Beat Telcom Uganda Ltd (Uganda)	680,000
Stop Telcom Uganda Ltd (Uganda)	255,000
Beat Telcom Rwanda Ltd (Rwanda)	123,500
Stop Telcom Zambia Ltd (Zambia)	<u>89,700</u>
Total	<u>1,148,200</u>

Other sales:

An old motor vehicle (Mitsubishi Pajero) was sold for Shs 11,450,000

Purchases and payments:

Description:	Amount Shs '000'
Paid for the supply of telecom installation services by Bemba Limited	1,253,900
Paid for the supply of telephone services by Beat Telecom Uganda Ltd	50,980
Paid for the supply of office consumables (all standard rated) by Good Deal Supermarket	12,500
Paid for a motor vehicle (Land cruiser Prado) from the car bond at Nakawa	85,000
Paid staff salaries for the month of September	1,560,000
Bought unimproved Land in Luwero district	580,000
Paid audit fees to Allied CPA Consultants	15,000
Paid rent for September	<u>330,000</u>
Total	<u>3,887,380</u>

Other payments:

During December 2020, the company paid Wire Technologies International Ltd an amount of USD 50,000 as payment for management services provided by the parent company.

The company had a VAT offset brought forward from November 2020 of Shs 124,390,000.

Notes:

- All sales are VAT inclusive where applicable.
- All purchases are VAT exclusive where applicable.
- The company trades with only VAT registered entities.
- The exchange rate of the USD to Shs for the month of December 2020 as posted on the URA portal was Shs 3,650.

Required:

Advise the management of Wire Technologies Uganda Limited on the VAT payable or claimable for the month of December 2020.

(12 marks)

- (b) A Uganda Revenue Compliance officer notified the company's accountant that the company was likely to be penalised for the claim of incorrect VAT. On the review of the return filed for November 2020, it was found that included in the purchases claimed were the following invoices, all VAT exclusive:

- Shs 120 million for buying a mini bus which will mainly be used to transport staff to the field.
- Shs 86,790,000 that was paid to Bamu Ltd for providing entertainment at a staff party during the month.

Required:

Advise the management of Wire Technologies Uganda Limited on the tax implications of the above transactions quantifying the penalties due, if any.

(5 marks)

- (c) The management of Wire Technologies Uganda Limited has been advised that they can agree with the Commissioner to compound their offence.

Required:

Explain to the management the implication of compounding offences.

(3 marks)

(Total 20 marks)

Question 4

- (a) Verger Uganda Limited (VUL), is a private company registered in Uganda and a subsidiary of Verger International Limited (VIL) whose office is located in Mauritius. VUL is engaged in the manufacturing of computer components under license from VIL who is the patent holder. VIL charges VUL royalty fees for allowing them manufacture the components in Uganda.

In an effort to cut costs, VIL has set up a shared services centre in Mauritius which is involved in providing services to various subsidiaries across the world.

The services provided include: finance and accounting, human resource management, research & development and procurement.

VUL has reported a loss before tax of Shs 200 million for the year ended 30 June, 2020 after charging the following amounts below:

Item	Shs 'million'
Finance and accounting	80
Human resource management	45
Procurement	76
Research and development	120
Management fees	300
Royalty payment	450

The Uganda Revenue Authority is not comfortable with the information and is of the view that the management fee cost paid to Mauritius is a tax avoidance scheme since in their opinion it is a duplication of the other services provided in the country.

Required:

- (i) Explain to the management of VUL the powers of the Commissioner in the circumstances where he/she suspects a tax payer's transaction to be a tax avoidance scheme.
(4 marks)
- (ii) Explain the likely tax implication of the Commissioner's action.
(3 marks)
- (b) The company has been put on alert to prove to the Uganda Revenue Authority that the management fees charged have been determined at arm's length price.

Required:

Provide the documentation that the company is required to provide as evidence that the management fees charged have been determined at an arm's length price.

(7 marks)

- (c) Multinational entities (MNEs) usually plan their taxation policies involving locating most of the group activities in "Tax Havens".

Required:

Describe what you understand by "Tax Haven" explaining at least **four** characteristics of a tax haven.

(6 marks)

(Total 20 marks)

Question 5

- (a) Alpha Oil Limited (AOL) is a licensee in the Albertine Region. On 1 June 2020, AOL entered an agreement with Beta Oil Limited (BOL), also a licensee to farm out a quarter (1/4) of its interest in the exploration area in order to raise capital to participate more meaningfully in the commercial production phase.

AOL engaged the services of Oil International Negotiators (OIN), a company resident in the United Kingdom, in order to determine the most efficient consideration for the deal. OIN charged a fee of USD 100,000

that was invoiced in advance on 1 June, 2020. The negotiations between the two parties were concluded two months later on 2 August 2020, on which date AOL transferred the agreed fees to the account of OIN in London.

Both AOL and BOL agreed to the consideration for the farm out deal at USD 3 million, which BOL transferred to AOL account on 2 August, 2020. AOL started the oil exploration work in the Albertine Region in 2005 and the total exploration expenditure incurred up to 31 May, 2020 was USD 2.5 million. AOL will continue to hold their interest in three quarters of the exploration area.

The average exchange rates of the Shs to the USD were:

	Shs
• June 2020	3,690
• July 2020	3,685
• August 2020	3,675

Required:

Advise the management of AOL on its tax exposure of the farm out agreement.

(10 marks)

- (b) A licensee is required to file his return with the URA in accordance with section 93 of the Income Tax Act and sections 16 and 19 of the Tax Procedures Code Act but with some modifications.

Required:

Explain the modifications related to filing of returns that will apply to a licensee in accordance with section 89O of the income Tax Act.

(5 marks)

- (c) Define what is meant by "petroleum development expenditure" and explain the tax provisions relating to "petroleum development expenditure" in accordance with section 89 of the Income Tax Act.

(5 marks)

(Total 20 marks)

TEST PAPER 10

CPA (U) OCTOBER 2021

Question 1

High Life Uganda Limited (HLUL) is a Ugandan resident company that deals in the manufacture and distribution of various types of health care products which include body oils and soaps. The company has regional offices in Mbale, Jinja and Kampala.

HLUL is a subsidiary of High Life International Limited (HLIL), a company which is tax resident in the United Kingdom (UK) and holds 99% of the shares in HLUL. HLIL is a holding company for several subsidiaries in various countries in the world. The remaining 1% of the shares is held by Mr. Kanakulya, a Ugandan citizen with a permanent home in Uganda, who spends on average 200 days a year in UK and the remaining days of the year in Uganda.

The company started operations in January 2017 in rented premises and leased machines in Ntinda Industrial Area in Kampala, but commenced on the construction of their own factory building in Mbale Industrial Park, Eastern Uganda, by obtaining a loan of US\$ 2 million from an international bank at annual interest rate of 5 % per annum. The new factory building which cost Shs 5.5 billion (excluding the cost of land) to completion was commissioned on 1 January, 2020 and at that time interest of US\$ 300,000 had been paid to the international bank.

All the raw materials are imported from HLIL in UK. HLIL also provides technical support to HLUL in the form of supervision to ensure that the products are of required standards as per their patent which is registered in UK. HLUL in turn pays a royalty and technical support fees to HLIL for allowing them manufacture their patented products in Uganda.

The following is HLUL's statement of profit or loss and other comprehensive income for the year ended 31 December, 2020.

	Notes	Shs '000'	Shs '000'
Turnover			126,750,000
Other income	1		<u>101,600</u>
			126,851,600
Expenses:			
Manufacturing expenses	2	26,965,800	
Selling and distribution expenses	3	15,060,900	
Administrative expenses	4	12,586,800	
Finance costs	5	408,500	
Other operating expenses	6	<u>1,300,500</u>	
			<u>(56,322,500)</u>
Profit before tax			<u>70,529,100</u>

Additional notes:

1. Other income includes:

	Shs '000'
Interest earned on fixed deposit account	30,100
Unrealised foreign exchange gain	18,500
Gain on sale of fixed assets	<u>53,000</u>
	<u>101,600</u>

2. Included in the manufacturing expenses are the following:

	Note	Shs '000'
Depreciation of plant & machinery		22,145,600
Finance lease payment for manufacturing equipment	(i)	2,220,000
Technical fees paid		1,020,000
Fine paid to the City Authority for inappropriate waste management		5,200
Un receipted payment to Ministry of Industry official for renewal of manufacturing permit		5,000
Salaries & wages		1,020,000
Royalties paid to HLIL		<u>550,000</u>
Total		<u>26,965,800</u>

(i) The company leased manufacturing equipment from Uganda Leasing Bank on 1 January, 2017 under a finance lease arrangement for 5 years. The cost of the equipment was Shs 10.6 billion and annual lease payment of Shs 2.22 billion was agreed, comprising of principal payment of Shs 2.12 billion and interest of Shs 100 million. The company has an option to purchase the property at fair market value at the end of the five years.

3. Selling and distribution expenses:

	Note	Shs '000'
Provision for bad and doubtful debts		125,000
Advertising costs	(ii)	8,500,000
Transport costs		6,280,000
Donation to Covid-19 task force		100,000
Fines - Road traffic penalties		5,900
Sponsorship for member of parliament - Mbale district		<u>50,000</u>
Total		<u>15,060,900</u>

(ii) Included in the advertising costs is the cost of products of Shs 120 million given out free of charge to the local government leaders in Jinja in order to get a favourable report on the activities of the company in the district. The district works committee had been

investigating allegations that HLUL's waste handling did not conform to the waste management by-laws.

4. Administrative expenses:

	Shs '000'
Relocation costs from Kampala to Mbale	230,000
Salaries & wages	12,300,000
Entertainment	50,000
Office running expenses	<u>6,800</u>
Total	<u>12,586,800</u>

5. Finance costs include:

	Shs '000'
Interest paid	360,000
Unrealised foreign exchange loss	23,500
Bank charges	<u>25,000</u>
Total	<u>408,500</u>

6. Other operating expenses:

	Shs '000'
Subscriptions for staff to Mbale Fitness Club	50,000
Life insurance premiums paid for staff	125,000
Commissions paid	1,110,000
General expenses not supported by receipts	<u>15,500</u>
Total	<u>1,300,500</u>

7. Tax written down values of qualifying assets as at 1 January, 2020:

	Shs '000'
Class 1	112,890
Class 2	175,670
Class 3	4,635,800
Class 4	1,870,600

8. Asset additions and disposals during the year:

Additions:	Shs '000'
Manufacturing plant & machinery	3,545,500
Five 12-ton lorries for product distribution	925,000
10 Laptops each at Shs 2.5 million	25,000
Furniture (each item less than Shs 1 million)	56,000
Disposals:	
Two scrapped 12-ton lorries each sold for Shs 45 million	90,000

9. The company paid provisional tax of Shs 950 million for the year ended 31 December, 2020 as a requirement to be included on the list of taxpayers exempted from withholding tax for the year.

10. The company had a loss carried forward from the year ended 31 December, 2019 of Shs 13.5 billion.

11. The average rate of exchange for the year was US\$ 1: Shs 3,600
12. During January 2020, the Board of Directors of HLIL considered reducing their shareholding in the Uganda subsidiary, HLUL due to the accumulated loss carried by the company. There was a proposal of transferring 55% of the shares held in HLUL to Weatherbeaten International Limited (WIL), a company based in United Kingdom. HLIL would remain with only 44% of the shares while Mr Kanakulya would maintain his 1% of the shares.

Required:

- (a) Advise HLUL on the corporation tax payable to the revenue authority, if any, for the year ended 31 December, 2020.
(14 marks)
 - (b) Compute the capital allowances for the year ended 31 December, 2020.
(12 marks)
 - (c) Explain the provisions regarding the taxation of operating and finance leases in accordance with section 59 of the Income Tax Act.
(7 marks)
 - (d) Advise the management of HLUL on the provisions regarding the treatment of assessed losses in accordance with the Income Tax Act.
(2 marks)
 - (e) Advise the management of HLUL on the tax implications of the proposed sell of shares by HLIL to WIL in regard to tax losses.
(5 marks)
- (Total 40 marks)**

QUESTION 2

- (a) Big Network Uganda Limited (BMU), a telecommunications company whose network covers the whole country installed new software in October 2019 which required the services of an expert Software Engineer. The company advertised in country but did not get a suitable candidate and decided to source from abroad.

The company head hunted Mr John Drumling an American telecommunications engineer, on recommendation of an international recruitment company. He had lived and worked in New York since completion of University in the year 2010. He is married with two children aged 6 and 3 years respectively.

The terms of the contract were that he was to relocate to Uganda in January 2020 together with his family to work for an initial term of three years as Operations Director, renewable for another three years on satisfying his Key Performance Indicators (KPI's). He would be located at the head office in Kampala.

The agreed terms in the contract were:

1. Monthly basic salary:
 - US\$ 10,000 paid to his CITI bank account in New York.
 - Shs 3.4 million paid to his bank account in Uganda.
2. Monthly medical insurance to cover self, spouse and two children of Shs 300,000.
3. Monthly airtime loaded directly on his mobile phone Shs 500,000 and provides no accountability of its use.
4. Leave pay of US\$ 10,000 in the 12th month. He is expected to take paid leave of 30 days in the 12th month of service and the company will provide him air tickets for self, spouse and children at a value of US\$ 4,000 in total.
5. Lunch will be provided in the company canteen on working days valued at Shs 20,000 per plate. All the staff are served from the same canteen irrespective of grade
6. The company will provide him with a fully furnished house located in the Naguru residential suburb of the city. The company will pay a monthly rental of US\$ 4,000 for the house directly to the landlord.
7. The company will pay for the services of a housekeeper at Shs 300,000 per month and a security guard at Shs 250,000.

8. The company will provide him with a car to assist him in performance of his duties as well as private use which cost the company Shs 300 million on 20 December, 2019. He will be the first user. The car will come with a fuel card on which the company will load Shs 1 million per month. He provides no accountability of the fuel used on business trips. He will also be assigned a personal driver who the company will pay a monthly salary of Shs 520,000. The car will be parked at the office designated garage for service during the month when he is away on leave. The driver will also be assigned other duties in that month.
9. Travelling allowance of US\$ 1,000 is paid on working trips abroad and Shs 500,000 per night for work trips in country. During the year ended 31 December, 2020 he made 7 nights of travel abroad and 20 nights of travel in country. The allowance covers food and accommodation while on business travel and was fully accounted for during the year ended 31 December, 2020.
10. Company pays subscriptions for him for the following:
 - Health club membership Shs 300,000 per month.
 - Annual subscription to the Uganda Software Engineers Association Shs 1 million.
11. John was recruited in New York to specifically come to Uganda to perform the function of Operations Director and was paid the following amounts on 5 January, 2020 after having arrived in Uganda on 2 January, 2020.
 - Reimbursement for air tickets for self and family US\$ 5,000.
 - Reimbursement of other relocation costs Shs 10 million.
 - Compensation for accepting employment in Uganda (one off payment) US\$ 20,000.

During the year ended 31 December 2020, John also received the following:

 - Dividends from a company in the USA.
 - Interest income on his fixed deposit account in USA of US\$ 12,000.

The average exchange rate was US\$ 1= Shs 3,650

Required:

- (a) Compute the chargeable employment income and tax payable for Mr John Drumling for the year ended 31 December, 2020. **(14 marks)**
- (b) Explain to Mr John Drumling the tax implication of dividends and interest income received during the year. **(2 marks)**

- (b) During a workshop organised by ICPAU to sensitise small and medium traders in Kampala, one of the traders explained that the reason they do not want to pay their employers a lot of money is that allowances are taxed by Uganda Revenue Authority and yet they do not see the contribution to the development of the country.

Required:

Explain the different sources of employment income that are not taxable.

(4 marks)

(Total 20 marks)

Question 3

- (a) Mr Patel Ranjid lives and has lived in Canada all his life. His parents were however born in Uganda but were affected by the presidential decree in 1972 and left all their accumulated properties in Uganda. The properties were taken over by Government but were eventually returned to the original owners in 1990. Mr Patel took over the properties in 2016, after the death of his mother, who had been the administrator of the estate after the death of his father in 1991. He manages the properties through an estates agent who charges him agency fees. He has since also modernised and modified most of the properties. The properties constitute both commercial shops and residential apartments.

During the year ended 31 December 2020, the following transactions occurred with regard to the properties.

	Note	Shs '000'
Rental income		3,000,000
Sale of commercial property	1	<u>1,200,000</u>
		4,200,000
Less expenses:		
Agency fees		30,000
Renovations & painting		250,000
Depreciation		456,000
Security		12,000
Utilities		<u>52,000</u>
		<u>(800,000)</u>
Net profit		<u>3,400,000</u>

1. The property sold did not qualify for commercial building allowance, it was located in Kololo and was bought by Uganda Investments Limited a resident company, which intends to demolish the existing

building and construct apartments. The cost base of the property sold was Shs 435.5 million.

2. The qualifying expenditure on 1 January, 2018 when one of the commercial properties remodeling was completed and was put to use was Shs 5.5 billion.
3. Mr. Patel has also invested in shares of various listed companies on the Uganda Securities Exchange and earned a total of gross dividends of Shs 100 million during the year ended 31 December, 2020.

Required:

- (i) Advise Mr. Patel on the general provisions under the Income Tax Act relating to how his income will be taxed in Uganda.
(8 marks)
- (ii) Compute the tax payable by Mr. Patel for the year ended 31 December, 2020.

(6 marks)

- (b) Mr. Patel Ranjid would like to set up business in Uganda as either subsidiary or branch but would like an appraisal of the advantages and disadvantages of each before he can make up his mind.

Required:

Advise Mr. Patel on the differences between branch and subsidiary highlighting the advantages and disadvantages of each.

(6 marks)

(Total 20 marks)

Question 4

- (a) Best Deals Uganda Limited (BDUL) operates a supermarket in Kampala dealing in the sale of consumer processed food items, clothing, educational materials, electrical appliances, unprocessed food items and other household consumer products. The supermarket started operations in January 2019 and was registered for VAT in June of 2019, the supermarket is compliant with its tax obligations and started using the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) in January 2021.

The summary of the sales, purchases and administrative expenses for the month of June 2021 is provided below.

1. Sales (VAT inclusive where applicable):

	Shs '000'
Sugar	250,000
Educational materials	12,000
Sanitary towels	6,500
Wheat flour	18,000
Diapers	1,500
Mosquito nets	4,000
Face masks	2,500
Clothing	52,000
Processed milk	5,500

2. Purchases (VAT exclusive where applicable):

	Shs '000'
Sugar	200,000
Educational materials	6,000
Diapers	5,000
Wheat flour	25,000
Processed milk	3,000
Clothing	120,000
Motor vehicle - salon car	35,000

3. Administrative expenses (VAT Exclusive where applicable):

	Shs '000'
Telephone	3,000
Rent	1,000
fuel (Petrol)	3,500
Motor vehicle repair and service	4,500
Security expenses	2,000

The business had an input VAT offset brought forward from May 2021 of Shs 1,432,000.

Required:

- (i) Compute the VAT payable / claimable by BDUL for the month of June 2021.

(14 marks)

- (b) The Commissioner General by notice in the Gazette specified that it is mandatory for all VAT registered taxpayers to issue e-invoices or e-receipts linked to the centralised invoicing and receipting system of Uganda Revenue Authority (EFRIS) with effect from 1 July 2020. BDUL has

however only applied EFRIS on part of the business due to the logistical problems of implementation involved.

Required:

- (i) Explain to the management of BDUL the advantages of employing EFRIS to a taxpayer's business.
(4 marks)
- (ii) Advise the management of BDUL on the penalties they are likely to incur for failing to implement EFRIS.
(2 marks)

(Total 20 marks)

Question 5

- (a) Mr. Kasuku borrowed US\$ 120,000 from a commercial bank in Kampala on 1 June, 2020 at an interest rate of 4% per annum for the sole purpose of importing a machine to manufacture electronic school calculators from Yawee Company Limited (Yawee) in Wuhan, China. The arrangement fee for the loan was 1% of the amount to be disbursed which he paid. Yawee specialises in manufacturing of manufacturing machines used to make calculators branded "Easy Add" which they have patented. For anyone to produce and sale "Easy add" calculators , they must purchase the machinery from Yawee and pay a royalty of US\$ 30,000 to allow them use the machine to manufacture anywhere outside China. Yawee is the sole manufacturer of machines that manufacture "Easy Add" calculators in China.

The cost of the machine on the commercial invoice (ex-factory) issued on 15 December, 2020 was US\$ 120,000. This is the invoice that was presented to the customs officer at the Malaba border post on 1 March, 2021. The customs officer however, had information that an identical machine was imported by Mr. Musirifu from the same company on 1 January 2021 at US\$ 130,000. Mr. Kasuku argued that Yawee had given him a discount of US\$ 10,000. On further scrutiny of the invoice and accompanying documents, the officer confirmed that indeed a trade discount of US\$ 10,000 had been granted to Mr. Kasuku.

The other information relating to the import of the machine includes the following:

- 1. Transport charges on land in China to the Guangzhou harbour US\$ 300.
- 2. Storage charges at the Guangzhou harbour in China before loading on the ship US\$ 2,800.

3. Shipping charges from Guangzhou to the port of Mombasa in Kenya US\$ 4,500.
4. Marine insurance on boarding the ship US\$ 2,500.
5. Transport and insurance from Mombasa to Kampala US\$ 3,000.

The following information was also available:

- Exchange rate of US\$ 1= Shs. 3,700.
- Other rates:

	Rate %
Import duty (finished products)	25
Import duty (intermediate products)	10
Import duty (raw materials)	0
Infrastructure development levy	1.5
Withholding tax	6

Required:

Advise Mr. Kasuku on the total taxes payable on the import of the calculator making machine to Kampala.

(10 marks)

- (b) The East African Community Customs Management Act (EACCMA) allows for duty drawback under Section 138.

Required:

Explain the meaning of duty draw back with reference to the EACCMA giving the conditions that a taxpayer must fulfill before taking advantage of the provision.

(6 marks)

- (c) The EACCMA in its second schedule provides a listing of goods that are restricted from being imported into or exported out of the region.

Required:

Explain why countries restrict certain imports and exports.

(4 marks)

(Total 20 marks)

TEST PAPER 11

CPA (U) DECEMBER 2021

Question 1

Uganda Modern Coverings Ltd (UMC) is a private company, engaged in the manufacture of roofing iron sheets from imported raw materials since 1 July, 2001. The factory is located in Jinja industrial area.

UMC is part of a group, International Modern Coverings Ltd (IMC), a private company whose head office is in India, but has subsidiaries in Uganda, Kenya and Rwanda. The share capital of all the subsidiaries is owned 100% by IMC.

Below is the summary of UMC's statement of profit or loss and other comprehensive income for the year ended 31 June, 2021.

	Notes	Shs '000'
Revenue		109,600,000
Cost of sales	1	<u>(72,250,000)</u>
Gross profit		37,350,000
Other income	2	<u>2,250,000</u>
		39,600,000
Operating expenses	3	<u>(12,125,000)</u>
Administrative expenses	4	<u>(11,150,000)</u>
Operating profit		16,325,000
Finance costs	5	<u>(900,000)</u>
Profit before tax		<u>15,425,000</u>

Notes:

- Included in the closing inventory is a consignment of steel rolls imported from India which arrived in the country on 28 June, 2021 that had been valued at a market value of Shs 1.2 billion. However, the cost of the steel rolls was Shs 1 billion.

- Other income is made up of the following amounts:

	Shs '000'
Gain on disposal of property, plant and equipment	646,550
Unrealised foreign exchange gain	476,950
Interest earned on investment in Bank of Uganda treasury bills	1,000,000
Bad debts originally written off, recovered	<u>126,500</u>
	<u>2,250,000</u>

3. Operating expenses include:

	Notes	Shs '000'
Management fees	6	2,600,000
Professional & technical fees	7	2,225,000
Repairs & maintenance	8	3,450,000
Electricity, water & fuel		800,000
Commissions paid	9	295,000
Transport costs		<u>2,755,000</u>
		<u>12,125,000</u>

4. Administrative costs include:

	Notes	Shs '000'
Salaries and wages		6,635,000
Bad debts written off		214,500
Provision for bad debts		347,600
Depreciation		2,677,500
Insurance	10	445,000
Telephone & internet		229,900
Entertainment		243,000
Donations	11	295,000
Fine paid to National Environment Management Authority		35,000
Penalty for late payment of Value Added Tax		<u>27,500</u>
		<u>11,150,000</u>

5. Finance costs relate to interest paid on loans guaranteed by IMC at head office. The loans were all procured from financial institutions.
6. Management fees were paid to IMC in India on 30 May, 2021 but the relevant taxes relating to this payment were not paid to the Revenue Authority.
7. Included in this amount is Shs 50 million paid to a resident Engineering firm, Xtrail Experts, for technical advice. However, Xtrail Experts is not registered for taxes. The remaining amount relates to payment that was made to AB & D Associates, a certified public accountancy firm based in Kampala for providing audit and related services. The payment was made on 30 December, 2020. AB & D Associates was not on the list published by the revenue authority as exempt from withholding tax. However, no tax was deducted on the basis of the stamp on their invoices that the firm was exempt from withholding tax.
8. Included in the repairs and maintenance is an amount of Shs 100 million that was used to replace an important and vital part in the steel galvanizing machine. The staff engineers were used to fix the machine.

9. Included in the commissions paid is an amount of Shs 20 million that was paid as a bribe to an inspector of the standards authority to prevent the closure of the industry due to production of substandard roofing sheets.
10. Included in the insurance amount is an amount of Shs 200 million to cover life insurance of the directors and senior staff of the company.
11. The donations were made to the Uganda Steel Manufacturers' Association to enhance the activities of the association.
12. Information relating to property, plant and machinery.

(i) Tax written down values of depreciable assets as at 1 July, 2020.

	Shs '000'
Class 1	145,000
Class 2	820,525
Class 3	25,020,300
Class 4	<u>4,059,175</u>
Total	<u>30,045,000</u>

(ii) Additions during the year ended 30 June, 2021.

	Shs '000'
Land in Jinja	250,000
5 Trailers with mounted containers at Shs 300 million each	1,500,000
2 Saloon cars each at Shs 25 million	50,000
10 Computers each at Shs 7.5 million	75,000
Manufacturing equipment	625,000
Office furniture and fittings	<u>75,000</u>
	<u>2,575,000</u>

(iii) Obsolete manufacturing machines were sold for Shs 375 million.

(iv) Buildings:

- The qualifying cost of the factory building when it was first put to use on 1 July, 2001, was Shs 960 million and the residue of expenditure as at 1 July, 2020 was Shs 96 million.
- Significant renovations were made to the factory building in the year 2011 and the qualifying cost of these was Shs 1.6 billion. The factory resumed work commencing 1 July, 2012. The residue of the expenditure as at 1 July, 2020 was Shs 960 million.
- A new extension to the factory was constructed for Shs 3 billion in 2019 and put to use beginning 1 July, 2020. The old factory is to be demolished before the end of 2021 due to major weaknesses in the structure.

13. The company was on the list of taxpayers exempted from 6% withholding tax. However, they were included at the end of August 2020 when Shs

900 million had been withheld by the revenue authority on the imports of raw materials.

14. The company has an assessed loss carried forward from the year ended June 2020 of Shs 13,724,687,200 and filed an estimated provisional return of nil.

The revenue authority notified all taxpayers that are not compliant with respect to withholding tax to make their tax payments by 31 October, 2021 in which case the penalties would be waived. They have however indicated that any interest due on late payment would be payable.

Shree Limited, a major shareholder who owns 80% of the shares of IMC has made a proposal to sell 60% of their shares to BJP India Limited in December 2021. Both companies are tax resident in India. UMC is not expected to change line of business in the near future. However, BJP India Limited has interest in cement manufacturing in India and according to their strategic plan; they intend to expand within East Africa in the next three years after investing in IMC. It is expected that a new line of manufacturing cement will be introduced in UMC within the next three years.

As a tax consultant:

Required:

- (a) Compute the chargeable income and tax payable (if any) for UMC for the year ended 30 June, 2021. (*Hint: Show all your workings*)
(23 marks)
 - (b) Advise the company on the tax deductibility of interest paid on the loans guaranteed by IMC.
(3 marks)
 - (c) Advise UMC on the withholding tax obligations due by 31 October, 2021 including any interest payable (if any).
(3 marks)
 - (d) Explain to the directors of UMC the tax implications of the transactions of Shree Limited and BJP India Limited to UMC in Uganda, if undertaken.
(11 marks)
- (Total 40 marks)**

QUESTION 2

- (a) Mr. Patel John is an Information Technology (IT) expert, who is a native of India and has lived and worked in India all his life. He was recently outsourced by Uganda Recruiters Ltd (URL) on behalf of Mulengera Uganda Limited (MUL), a telecommunications company that started operations in Uganda in 2020, to head its newly formed IT department.

An official of URL travelled to Chennai, India to interview Mr. Patel and having satisfied the requirements, he was offered the job of Head of IT at MUL, commencing on 2 January 2021 to 31 December 2025, with the following terms in the contract:

1. Re-imbursement of all the verified relocation costs in the second week of taking up the appointment.
2. Monthly salary of US\$ 4,000 to be deposited directly on his savings account in India.
3. Monthly salary of Shs 3.6 million to be deposited on his current account in Uganda.
4. Renting for him a house in an upscale residential area of his choice for a maximum of US\$ 2,000 per month.
5. A car for both official and personal use whose cost will not exceed Shs 300 million.
6. Payment for electricity, water and telephone expenses as per the invoices provided by the service providers.
7. Furniture allowance of Shs 50 million at the commencement of the contract.
8. Security guard at the residence for Shs 300,000 per month.
9. House servant for Shs 250,000 per month.
10. Medical insurance for self, spouse and four dependants below the age of 18 for Shs 600,000 per month.
11. School fees for four school going children at an international school of choice.
12. Lunch at the office canteen for all staff at Shs 300,000 per person per month.

During the month of January 2021, the following happened:

- On 3 January 2021, Mr Patel received from the company a Mercedes Benz which cost Shs 250 million and he was the first user. It was to be available to him throughout the year.

- The verified cost of his relocation to Uganda with his wife and two children was US\$ 25,000, which was paid to him on 8 January, 2021.
- He selected a house of his choice in Naguru residential area at US\$ 2,000 per month and shifted to the house on 5 January, 2021.
- Invoices for utilities of electricity, water and telephone were Shs 450,000, Shs 200,000 and Shs 520,000 respectively.
- School fees paid for his two children at International School on 15 January, 2021 was US\$ 6,000.
- Entertainment allowance of Shs 2 million was paid to him.

Note: The average exchange rate for the period was US\$ 1 to Shs 3,600.

Required:

Determine Mr. Patel's chargeable employment income and tax payable for the month of January 2021.

(14 marks)

- (b) Mr. Patel would have liked to be an independent consultant, if he had been in Uganda before. A colleague has advised him that he can terminate the employment contract and engage in one of consultancy and that this would reduce his tax obligations.

Required:

Advise Mr. Patel on the distinctions between 'employee' and 'independent consultant' commenting on whether his tax obligations would reduce on conversion.

(6 marks)

(Total 20 marks)

Question 3

- (a) Kavuyo Limited (KL) is a wholesaler dealing in general merchandise. The company's main business is located in Kampala where they rent a warehouse. KL does not import any goods but buys from local manufacturers. The company has been registered for VAT since January 2010.

The company's transactions during the month of October 2021 were as below:

Purchases (VAT exclusive where applicable):

Date	Description	Amount Shs '000'
1	1,000 bags of sugar	296,700
8	7,000 bags of cement	148,400
15	2,000 bags of maize flour	90,600
19	Assorted medicine made in Uganda	200,900
22	5,000 bags of cement	106,000

Payments for expenses (VAT exclusive where applicable):

Date	Description	Amount Shs '000'
2	Rent	30,000
4	Salaries and wages	95,500
4	Health insurance premium	5,820
12	Telephone bills	18,300
23	Transportation costs	56,750
29	Electricity bills	10,000

Sales (VAT inclusive where applicable)

Date	Description	Amount Shs '000'
15	Sale of 2,000 bags of cement to a health centre construction project funded by the European Union Fund (qualifying as Aid funded project)	60,000
18	500 bags of sugar	17,500
20	1,000 bags of maize flour	49,500
29	Export of 3,000 bags of cement to South Sudan	93,000
30	Sale of medicines made in Uganda	250,000
30	12,000 bags of cement	240,000

Note

1. The company deals with only registered persons and proper tax invoices were obtained for all purchases where applicable.
2. The company had a VAT offset of Shs 12,596,200 for the month of September 2021.

Required:

Compute the VAT payable /claimable by KL for the month of October 2021.

(12 marks)

- (b) Included in the offset brought forward was an amount of Shs 10,250,000 relating to claim of input tax on a consignment of sugar from the manufacturer. The revenue authority has confirmed that the manufacturer did not include the said sugar in his output and that the receipt used to

claim was forged. They have treated this as a fictitious claim and have issued the company with an assessment including the penalty. KL has contacted you as the tax agent and requested you to object to the assessment and penalty.

Required:

- (i) Explain the role of a tax practitioner to a tax client and whether you would object to the assessment as requested.

(5 marks)

- (ii) Advise Kavuyo Limited on the penalties due as a result of claiming a fictitious invoice as noted above.

(3 marks)

(Total 20 marks)

Question 4

- (a) Twegatte Uganda Limited (TUL) is a private company engaged in manufacturing of household utensils. The shareholding structure is 90% World Utensils Limited (WUL), a company based in Virgin Islands and 10% Bagaya Uganda Limited (BUL). The sole shareholder of BUL is Mr Twarire James who is a resident of Uganda.

During the year ended 31 December, 2020, raw materials of Shs 1.5 billion were procured from World Utensils India Limited, another subsidiary of WUL. If the raw materials had been procured from another source in India, they would have cost Shs 1 billion. TUL has fully functional departments of finance, administration and legal but paid management fees to WUL of Shs 900 million for providing these services. The services were provided remotely and did not involve any staff from WUL moving to Uganda.

WUL also advanced a loan to TUL on which interest of Shs 500 million was paid during the year. There was no evidence that the loan was used to finance the business during the year. When the return was filed on 25 June 2021, the company had returned a loss of Shs 1.5 billion. In addition, TUL did not have any transfer pricing documentation.

Note:

The income tax rate in Virgin Islands is Zero while it is 30% in Uganda.

As a tax expert:

Required:

- (i) Explain to the management of TUL how the revenue authority is likely to interpret these activities in line with tax avoidance schemes.
(3 marks)
 - (ii) Suggest the adjustments that may be made to the tax return for the year ended 31 December, 2020.
(3 marks)
 - (iii) Describe the detailed documentation that TUL should have kept in order to convince the revenue authorities that management fees were at arm's length.
(9 marks)
- (b) Regulation 9 (1) of the Income Tax Act (Transfer Pricing) Regulations 2011 states that: *"A person may request that the Commissioner enter into an advance pricing agreement to establish an appropriate set of criteria for determining whether the person has complied with the arm's length principle for certain future controlled transactions undertaken by the person over a fixed period of time."*
- TUL has approached you as a tax expert to advice on whether they should consider entering into an Advance Pricing Agreement with the revenue authority.

Required:

Advise the management of TUL on what is to be considered when entering such an agreement with the Commissioner.

(5 marks)
(Total 20 marks)

Question 5

- (a) Trends Oil Uganda Limited (TOUL), a fully owned subsidiary of Trends Oil International (TOI), whose head office is located in United Kingdom (UK), signed a petroleum exploration agreement with the Government of Uganda in 2010. The company commenced with exploration activities on the allocated block in Western Uganda and found substantial potential for commercial oil deposits. Due to uncertainty as a result of delay by government to enter the development phase, TOUL entered into a farm - out agreement with a competitor Lakeshore Oil Uganda Limited (LOUL), where they agreed to transfer the whole of their interest in the petroleum agreement. LOUL is a subsidiary of LOI, also with headquarters in UK.

By June 2019, when TOUL made a decision to transfer their interest in the petroleum exploration agreement, the accumulated allowable expenditure was US\$ 3.5 million.

The agreed consideration was US\$ 5 million which was paid to TOUL's account in London.

LOUL further incurred recoverable costs of US\$ 500,000 but realised that they would not have the resources to develop the whole block alone if Government would open up the development phase in 2022. In July 2021, LOUL entered into a farm-out agreement with Omega Oil Uganda Limited to transfer 50% of their interest in the petroleum agreement earlier acquired from TOUL at a consideration of US\$ 3 million, which amount was paid in July 2021.

Note:

- All the companies are tax resident in Uganda.
- The average exchange rates of the Shillings to the US\$ were:

Year	Shs
2019	3,500
2021	3,600

Required:

- (i) Advise Trends Oil Uganda Limited and Lakeshore Oil Limited on the tax implications of the transactions above.

(10 marks)

- (ii) Advise Trends Oil Uganda Limited on the offenses and penalties relating to taxation of petroleum establishments.

(6 marks)

- (b) A licensee is treated as a designated person for the purposes of Section 119 of the Income Tax Act in respect to payments made to a resident contractor.

Required:

Explain the withholding tax rules that are applicable to non-resident contractors in the petroleum exploration and development sector.

(4 marks)

(Total 20 marks)

TEST PAPER 12

CPA (U) MARCH 2022

Question 1

- (a) Kyamulibwa Fruit Processors Limited (KFPL) is a private company incorporated in Uganda and commenced business in January 2017. Mr. Kyabagu owns 100% of the shares of the company. The company is based in Masaka district and is engaged in the growing and processing of various types of fruits.

The factory processes 100% of the farm fruits into bottled fruit juice, under the brand name of Sanyu Juice. Sanyu juice is sold on the local market and exported to Rwanda, South Sudan and the Democratic Republic of Congo (DRC).

At the commencement of business in January 2017, the management of KFPL applied to the Commissioner for a certificate of exemption which the Commissioner declined to issue for reason that the machinery installed in the factory had not been imported but had been bought from another company in Uganda that had become insolvent and ceased fruit processing.

At the commencement of the business, Mr Kyabagu advanced the company a loan of Shs 2 billion at an interest rate of 10% per annum. The principal loan is only repayable in the event the company becomes a public company or insolvent. Due to the need to expand operations the company applied for a loan facility from Uganda Investment Bank of Shs 2 billion. The loan was to finance the purchase of land and construction of an extension to the factory. The loan was granted on 2 January, 2021 at a rate of interest of 8 % per annum repayable in 12 years.

During the year 2021, further works were done to enhance the water supply and the labor quarters on the farm. With increased water supply, the impact of the dry seasons was mitigated and more staff would be sheltered at the remote location in the labour quarters.

The following is an extract of KFPL's audited statement of profit or loss and other comprehensive income for the year ended 31 December 2021:

Revenue:	Note	Shs '000'	Shs '000'
Exports			43,600,000
Local sales			<u>62,860,000</u>
			106,460,000
Less:			
Cost of sales	1		<u>(58,706,820)</u>
Gross profit			47,753,180
Other income	2		<u>368,000</u>
			48,121,180
Administrative expenses	3	(21,308,500)	
Selling and distribution	4	(18,880,000)	
Finance costs	5	<u>(555,500)</u>	
			<u>(40,744,000)</u>
Net profit before tax			7,377,180
Tax at 30%			<u>(2,213,154)</u>
Net profit after tax			<u>5,164,026</u>

The following information is available

1. Cost of sales:

	Shs '000'
Opening inventory (harvested crops & Juice)	2,300,000
Direct farm labour	3,500,000
Direct fruit processing expenses	38,500,000
Farm managers remuneration and expenses	240,000
Field staff training	350,000
Fertilizers and seeds	15,870,000
Water supply works	605,320
Labour quarters	172,000
Closing inventory (harvested crops & juice)	<u>(2,830,500)</u>
	<u>58,706,820</u>

Included in the opening stock was Sanyu juice at a cost of Shs 200 million but which had been included at Shs 300 million in error. This did not affect the closing stock amount.

2. Other income:

	Shs '000'
Gain on sale of scrapped tractors	45,000
Foreign exchange gains	<u>323,000</u>
	<u>368,000</u>

Included in foreign exchange gains was Shs 110 million that was unrealized.

3. Administrative expenses:

	Shs '000'
Depreciation of property and equipment	16,595,000
Salaries and wages	3,900,000
Company NSSF contribution	335,000
Bad debts written off - Staff loans	143,000
Provision for bad debts - a supplier for Sanyu juice who was under receivership	125,000
End of year staff party	25,000
Donation to the district organizing committee for Independence day celebrations	50,000
Fines to Masaka district environment office	12,500
Office running expenses	<u>123,000</u>
	<u>21,308,500</u>

4. Selling and distribution expenses:

	Shs '000'
Fuel	1,350,000
Motor vehicle repairs and servicing	1,230,000
Advertising	14,500,000
Commissions	<u>1,800,000</u>
	<u>18,880,000</u>

Included in commissions was an amount of Shs 150 million paid to National Opposition Dialogue, NOD a registered political party.

5. Finance costs:

	Note	Shs '000'
Interest payment - Uganda Investment Bank	(i)	160,000
Interest payment - Mr Kyabagu		200,000
Bank charges		<u>195,500</u>
		<u>555,500</u>

(i) The factory extension was yet to be completed by 31 December, 2021 and had not been put to use at that time. It was expected to be put in use in the year ending 31 December, 2022.

6. Details of property, plant and equipment:
- (i) Tax written down values as at 1 January, 2021
- | Class | Amount Shs '000' |
|-------|------------------|
| 1 | 56,200 |
| 2 | 325,322 |
| 3 | 12,963,450 |
| 4 | 3,220,000 |
- Industrial building:
The qualifying cost of the fruit processing building in January 2017 was Shs 1.5 billion.
- (ii) Additions during the year ended 31 December, 2021.
- | Item: | Amount Shs '000' |
|---|------------------|
| Desk top computers | 25,000 |
| Tractors | 850,000 |
| Juice crashers | 423,000 |
| Agricultural sprayers | 59,500 |
| Heavy duty generator | 300,000 |
| 2 Lorries with a capacity to carry 10 tonnes | 230,000 |
| Toyota land cruiser for the exclusive use of the Finance Director | 120,000 |
| Agricultural land | 500,000 |
| Work in progress on construction of factory extension | 1,000,000 |
- (iii) Scrap tractors whose net book value was Shs 110 million were sold for Shs 155 million during the year ended 31 December, 2021.
7. Provisional tax paid for the year ended 31 December, 2021 was Shs 3 billion.
8. The company did not have any losses carried forward from the year 2020.

Note:

Apply the 1 July 2020 – 30 June 2021 Income Tax Law.

Required:

Advise KFPL on the

- (i) chargeable income and tax payable for the year ended 31 December, 2021.
- (25 marks)**
- (ii) due date for filing the final return for the year ended 31 December 2021 and whether there are any likely penalties to arise.

(5 marks)

- (b) KFPL intends to apply for income tax exemption from the Revenue Authority after the new extension has been constructed. Given the history of the exemption being rejected when they commenced business, they do not want any surprises and have contacted you for advice on the requirement for the exemption to be granted.

Required:

Advise KFPL on what is required for a person to qualify for income tax exemption on the income derived from agro processing for any year of income.

(6 marks)

- (c) Mr Kyabagu attended a Revenue Authority organized workshop where he heard a URA officer mentioning that "in case a person fails to file return in time, and is issued with an assessment, they would have to pay the amount assessed unless they have objected within the stipulated days in the law". This seemed unfair and he has approached you to explain whether the statement is true.

Required:

Discuss the circumstance under which a tax payer can be allowed to object a tax decision beyond the stipulated time under the Income Tax Act.

(4 marks)

(Total 40 marks)

QUESTION 2

Ggubya & Company Advocates is a legal firm that has been in business since January 2016. Its two partners Mr Ggulu and Mr Byansi share profits and losses in the ratio 3:2 respectively. Mr Ggulu has a permanent home in Kampala, Uganda but regularly travels to the United Kingdom (UK), where his family lives and spends approximately about 200 days in the UK where he is a consultant in Kingdom Fries Advocates. The partnership owns rental apartments in Kyaliwajala, Wakiso district.

The firm's statement of profit or loss and other comprehensive income for the year ended 31 December, 2021 is as below:

	Notes	Shs '000'	Shs '000'
Revenue	1		1,886,975
Direct expenses			<u>(632,000)</u>
Gross profit			1,254,975
Less			
Salaries	2	(685,000)	
Practicing certificate fees		(2,000)	
Training expenses		(44,000)	
Interest paid	3	(17,500)	
Stationery		(6,000)	
Telephone expenses		(18,000)	
Travelling and transport		(55,300)	
General expenses	4	(185,900)	
Depreciation		(25,300)	<u>1,039,000</u>
Profit before tax			<u>215,975</u>

The following information is available:

- Revenue is comprised of the following.

	Shs '000'
Legal fees	1,095,000
Other consultancy income	123,600
Rental income	585,000
Interest earned on fixed deposit account (Gross)	<u>83,375</u>
	<u>1,886,975</u>

- Included in this amount is Shs 60 million paid to Mr Byansi. He pays Pay As You Earn (PAYE) through the firm's payroll.

3. Interest paid is comprised of the following:

	Shs '000'
Interest on capital - Ggulu	3,000
Interest on capital - Byansi	2,000
Bank loan	<u>12,500</u>
	<u>17,500</u>

4. General expenses consist of the following amounts:

	Shs '000'
Office running expenses	60,900
Staff canteen expenses	52,000
Repairs and maintenance of rented apartments	73,000
	185,900

5. The firm operates in its own premises valued at Shs 60 million at the time they were contributed to the firm by Mr Ggulu. The office is located next to his permanent home in Kampala, Uganda. Mr Byansi contributed Shs 40 million for operations. Both partners are paid interest on capital at 10%.

6. The written down values of the assets as at 1 January 2021 were:

	Shs '000'
Class 1	3,520
Class 4	12,962

During the year, a new lap top was procured at Shs 3 million. Mr Byansi also surrendered his personal car (Mercedes Benz) valued at Shs 100 million to be used by all staff for the firm business. The title was transferred to the firm.

7. Other income by the partners

Mr Ggulu

- Consultancy fees in United Kingdom £ 23,000 (the average rate of exchange of the pound to the shilling was 1 £ = Shs 4,300). He charged withholding tax of 15% on the gross amount in the United Kingdom.
- Dividends Shs 2 million from a company listed on the Uganda Securities Exchange.

Mr Byansi

- Dividends Shs 4 million from a private company in Uganda.

Required:

- (a) Compute the partnership distributable profits for the year ended 31 December, 2021.

(13 marks)

- (b) Determine the tax payable for each partner for the year ended 31 December 2021, providing advice on why some of the income may not be included.

(7 marks)

(Total 20 marks)

Question 3

- (a) Mr. Rukundo bought 20 acres of land in Wakiso district at Shs 5 million per acre in 2016. The land was undeveloped at the time and there were no squatters. Mr. Rukundo extended the following services to the land in 2018.

	Shs 'million'
Access road and intra road network	80
Electricity network	25
Water connection network	17
Fencing	<u>10</u>
	<u>132</u>

Due to the COVID - 19 lockdown in 2020, Mr Rukundo's business in Kikuubo closed and he needed capital to startup another business. He sold off 5 acres of the land at Shs 15 million per acre in January 2021.

Required:

- (i) Explain what is meant by "cost base of an asset" with reference to Section 52 of the Income Tax Act

(3 marks)

- (ii) Advise Mr Rukundo on the tax implications of his transactions on the land in Wakiso.

(7 marks)

- (b) Opolot and his wife had been married for 20 years until December 2018 when they developed irreconcilable differences and agreed to divorce. Mr Opolot had acquired several properties during their marriage which were all registered in his names. As part of the divorce settlement, Mr Opolot transferred the land and building comprising the matrimonial home to his wife. The land had cost Shs 10 million in 2008 and the home constructed on it for Shs 60 million 2009. At the time of the transfer into the names of Mrs Opolot, the land and building was valued at Shs 260 million. In January 2021, Mr Opolot died and his former wife, having not pleasant memories of the house, decided to sell to an estates developer and relocate to the village where she had secured some land in the year 2015. She was paid Shs 500 million.

Required:

- (i) Explain the circumstances where the disposal of a business asset does not give rise to a gain nor loss.
(4 marks)
- (ii) Advise Mrs. Opolot on the tax implications of sale of the home to an estates developer.
(6 marks)

(Total 20 marks)

Question 4

Kazimungi Pharmacy Limited (KPL) deals in wholesale and retail trade in medical equipment, reagents, drugs and medicines. They are located on William Street, Kampala with several customers scattered around the country. The company is registered for all the tax heads with the Revenue Authority and trades with only tax compliant suppliers.

The following were the transactions during the month of December 2021.

Purchases (VAT inclusive where applicable).

Particulars:	Shs '000'
Drugs and medicines	200,000
Cosmetics	58,000
Medical examination gloves	180,000
Sanitizers	233,000
Infra red thermometers	59,000
Motorised fumigation pumps	350,000

Expenses (VAT inclusive where applicable).

Particulars	Shs '000'
Rent	10,000
Telephone Expenses	1,900
Salaries and wages	22,000
Office furniture	15,000
Commercial transport hire	95,000
Office security services	6,000

Sales (VAT Exclusive where applicable)

Particulars	Shs '000'
Drugs and medicines	320,000
Cosmetics	15,800
Medical Examination gloves	250,000
Sanitizers	135,000
Infra red thermometers	60,000
Old office furniture	6,500
Motorised fumigation pumps	175,000

The company applied for a refund of Shs 65.7 million in November 2021. They received communication from the Revenue Authority that input tax equivalent to Shs 55 million would be disallowed due to lack of evidence that the company had actually purchased the goods despite the fact that they were bought from VAT registered persons and the fiscal documents were availed.

Required:

- (a) Compute the VAT payable or refundable by KPL for the month of December 2021.

(14marks)

- (b) Advise the management of KPL on the objections and appeals process.

(6 marks)

(Total 20 marks)

Question 5

Tiger Oil Uganda Limited (TOUL) is a subsidiary of Tiger Oil International Limited (TOIL) based in the United Kingdom. TOIL has been in the oil and gas sector for a number of years. The Ugandan Government signed a Production Sharing Agreement (PSA) for petroleum exploration, development and production with TOUL on 1 January, 2015.

By December 2021, TOUL had successfully struck oil in block 5C in the allocated exploration area in western Uganda. The company went ahead to invest in the development of the block in preparation for production. However, the production is still awaiting the final decision from Government.

As at 31 December 2021, TOUL had incurred the following costs, expenses and expenditures.

	\$ 'million'
Signature bonus (2 January, 2015)	2
Geological surveys	12
Oil well drilling	8
Access roads	1
Plant and machinery	16
Transportation facilities	1
Salaries and wages	14
Rent for office space	3
Leasing of equipment	20
Fines and penalties	2
Donations to charitable organisations	1
Commissions paid to third party intermediaries	<u>4</u>
	<u>84</u>

Due to the delay of Government opening up the production phase, the management of TOUL made a decision to farm out one quarter (1/4) of Block 5C to an interested party in the oil and gas sector, China Oil International (COL). The farm out agreement was accented to by Government on 25 February, 2022 and TOIL received from COL USD 25 million for the transaction on 1 March, 2022.

Required:

- (a) Advise the management of TOUL on the tax implications of the farm out arrangement.

(10 marks)

- (b) Explain the provisions of the Income Tax Act relating to the tax treatment of Petroleum Exploration and Development expenditure.

(10 marks)

(Total 20 marks)



Answers

ANSWERS TO TEST PAPER 1

CPA (U) NOVEMBER 2017

Question 1

- (a) Computation of chargeable income and tax payable for the year ended 31 December 2015.

Twefuge Bank Uganda Limited

Computation of chargeable income for the year ended 31 December 2015

	Shs '000'	Shs '000'
Profit before tax		95,233,000
add back:		
Depreciation and amortization	9,600,000	
General impairment provision	2,800,000	
Donation to construction of PMP headquarters	500,000	
New IT Software system (to be capitalised)	10,000,000	
Training costs - employees' children	120,000	
Renovation of rental premises (separate source)	<u>20,000</u>	23,040,000
Less:		
Capital allowances	16,868,000	
Minor capital assets deduction	52,500	
Interest on treasury bills (final)	29,000,000	
Interest on treasury bonds (final)	3,500,000	
unrealised foreign exchange gain	10,000,000	
Profit on disposal of equipment	83,000	
Rental income (separate source)	<u>100,000</u>	<u>(59,603,500)</u>
Chargeable income		58,669,500
Assessed loss brought forward		<u>(35,850,400)</u>
Chargeable income for the year		22,819,100
Tax at 30%		6,845,730
Rental tax:		
Rental income		100,000
less expenses		<u>(20,000)</u>
Chargeable rental income		80,000
Tax at 30%		<u>24,000</u>
Total tax payable (6,845,730 + 24,000)		<u>6,869,730</u>
Identifying that rent is a separate source		

Identifying that rent is a separate source entitles a candidate to marks.

(b) Computation of capital allowances

	Class I	Class II	Class III	Class IV	Total
	40%	35%	30%	20%	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
TWDV 1 January 2015	5,600,000	8,000,000	9,080,000	23,000,000	45,680,000
Additions					
IT Software	10,000,000				10,000,000
Bullion Truck			500,000		500,000
Money counting machines				800,000	800,000
ATM Machines	280,000				280,000
Desktop computers	250,000				250,000
Office desks				126,000	126,000
	16,130,000	8,000,000	9,580,000	23,926,000	57,636,000
Disposals	(108,000)	-	-	-	(108,000)
	16,022,000	8,000,000	9,580,000	23,926,000	57,528,000
Depreciation allowance	(6,408,800)	(2,800,000)	(2,874,000)	(4,785,200)	(16,868,000)
TWDV 31 December 15	9,613,200	5,200,000	6,706,000	19,140,800	40,660,000

- (c) (i) A provisional taxpayer, whose estimate or revised estimate of chargeable income for a year of income is less than 90% of the taxpayer's actual chargeable income assessed for that year, is liable to a penal tax equal to 20% of the difference between the tax calculated in respect of the estimate, or as revised of chargeable income and the tax calculated in respect of 90% of the taxpayer's actual chargeable income for the year of income.

- (ii) Calculation of penalty for under provision

	Shs '000'
Actual chargeable income	22,819,100
90% of actual chargeable income	20,537,190
Estimated chargeable income (5 billion grossed up)	16,666,667
Tax at provisional (actual)	5,000,000
Tax at 90% of chargeable income	6,161,157
Difference	1,161,157
Penal tax (20% of difference)	232,231

- (d) (i) When a person is allowed a deduction for a bad debt (Section 24 ITA)
A deduction for a bad debt is only allowed:
- If the amount of the debt claim was included in the persons gross income in any year of income
 - If the amount of the debt claim was in respect of money lent in the ordinary course of a business carried on by a financial institution in the production of income included in gross income
 - If the amount of the debt claim was in respect of a loan granted to any person by a financial institution for the purpose of farming, forestry, fish farming, bee keeping, animal and poultry husbandry or similar operations
 - A bad debt is a debt claim in respect of which the person has taken all reasonable steps to pursue payment and which the person reasonably believes will not be satisfied.

- (ii) bad debt in relation to a financial institution – this is a debt in respect of which a loss reserve held against presently identified losses or potential losses, and which is therefore not available to meet losses which subsequently materialise, has been made
- (iii) Advice in relation to the transaction

Practice note of 2 November 2001

Specific reserves for identified losses in accordance with Bank of Uganda Regulations will be allowed. BOU had advised for a provision of 50% of the loan and therefore the allowed specific provision will be Shs 5,200,000,000 (10,400,000,000 x 50%)

Loan was diverted and not used for the purpose for which it was intended.

Ensure that all reasonable steps to recover the loan are taken

The bank needs to appoint a receiver/ liquidator for the company. Any distribution that will be made in the course of the liquidation will be deemed to be a dividend and will be taxed as a dividend.

Question 2

a) *Explanation of the terms as used in the Income Tax Act, Cap 340 laws of Uganda:*

(i) *Property Income*

(1) Property income means:

- (a) any dividends, interest, annuity, natural resource payments, rents, royalties and any other payment derived by a person from the provision, use, or exploitation of property;
 - (b) the value of any gifts derived by a person in connection with the provision, use, or exploitation of property;
 - (c) the total amount of any contributions made to a retirement fund during a year of income by a tax exempt employer; and
 - (d) any other income derived by a person including winnings derived from sports betting and pool betting, but does not include any amount which is business, employment or exempt income.
- (2) An amount included in property income under subsection (1)(a) retains its character as dividends, interest, annuity, natural resource payment, rent, or royalties for the purposes of any Section of the Act referring to such income.

(ii) *“Dividend” as per the Income Tax Act Cap 340.*

“Dividend” includes –

- (i) where a company issues debentures or redeemable preference shares to a shareholder –
 - (A) in respect of which the shareholder gave no consideration, an amount equal to the greater of the nominal or redeemable value of the debentures or shares; or
 - (B) in respect of which the shareholder gave consideration which is less than the greater of the nominal or redeemable value, an amount equal to the excess;
- (ii) any distribution upon redemption or cancellation of a share, or made in the course of liquidation, in excess of the nominal value of the share redeemed, cancelled, or subject to liquidation;
- (iii) in the case of a partial return of capital, any payment made in excess of the amount by which the nominal value of the shares was reduced;
- (iv) in the case of a reconstruction of a company, any payment made in respect of the shares in the company in excess of the nominal value of the shares before the reconstruction; or
- (v) the amount of any loan, the amount of any payment for an asset or services, the value of any asset or services provided, or the amount of any debt obligation released, by a company to, or in favour of, a shareholder of the company or an associate of a shareholder to the extent to which the transaction is, in substance, a distribution of profits, but does not include a distribution made by a building society;
- (vi) the issue of bonus shares to shareholders. However, bonus shares shall only be taxable upon disposal.

- b) Discussion of any four implications of withholding tax as a final tax in relation to the above statement and in accordance to the Income Tax Act, Cap 340.*

Implication of WHT as a final tax [S.122 (a) ITA]

Where withholding tax is considered as a final tax, the implication is;

- No further tax liability is imposed upon the taxpayer in respect of the income to which the tax relates;
- That income is not aggregated with the other income of the taxpayer for the purposes of ascertaining chargeable income;
- No deduction is allowed for any expenditure or losses incurred in deriving the income; and
- No refund of tax shall be made in respect of the income on which WHT is considered a final tax.

- c) Determine Rev. Ojakol's total tax liability for the year ended 31st December 2016.*

	Monthly Maintenance Costs (KShs) Exchange = 35	Monthly Maintenance Costs (Ushs = 35)	Annual Maintenance Cost (Ushs)
Rent Expense			
Water & electricity	3,429	120,015	1,440,180
Property & ground rates	2,714	94,990	1,139,880
Cleaning and compound maintenance	5,000	175,000	2,100,000
Security	10,000	350,000	4,200,000
Repairs and maintenance	10,000	350,000	<u>4,200,000</u>
Total Expenses	31,143		<u>13,080,060</u>

	Monthly Rent (KShs)	Monthly Rent (UShs)	Annual Rent (Ushs)
Property Location in Kenya			
Nairobi	100,000	3,500,000	42,000,000
Kisumu	50,000	1,750,000	21,000,000
Mombasa	128,571	4,499,985	53,999,820
Nairobi	137,143	4,800,005	57,600,060
Nairobi	105,714	3,699,990	<u>44,399,880</u>
Total Rent received	521,428		<u>218,999,760</u>

Gross income (business + employment + property income)	218,999,760
Allowable deductions	<u>(13,080,060)</u>
Chargeable income (gross income - allowable deductions)	205,919,700
Tax using resident individual PAYE bracket	<u>69,191,880</u>

Advice:

Interest on fixed deposit to Rev. Ojakol is a final tax so not aggregated to gross income

Interest on treasury bills to Rev. Ojakol is also a final tax so not aggregated to gross income

Dividends from Stab Bank share investments to Rev. Ojakol is also a final tax so not aggregated to gross income

QUESTION 3

a) Advise to Mondi on:

i. VAT payable or claimable for the month of January 2017

Sales:

Item	VAT Exclusive	VAT	Remarks
Sugar	12,000,000	2,160,000	Standard Rated
Bananas	1,100,000	-	Exempt
Exercise books	2,500,000	-	Zero rated
Laptops-computer	5,000,000	900,000	Standard Rated
Sugar-Mukasa (debtor)	2,100,000	378,000	Standard Rated
Insecticides	3,300,000	-	Exempt

Purchases:

Item	VAT exclusive	VAT	Allowed input	Remarks
Sugar	21,186,441	3,813,559	3,168,188	Standard rated
Bananas	11,500,000	-	-	Exempt
Exercise books	24,500,000	-	-	Zero rated
Laptops-computer	29,661,017	5,338,983	4,435,463	Standard rated
CCTV-Camera	25,423,729	4,576,271	3,801,825	Standard rated
Insecticides	11,000,000	-	-	Exempt
Baking powder	10,593,320	1,906,780	1,582,274	Standard rated
Rent-Prepaid	12,711,864	2,288,136	1,900,913	Standard rated

Apportionment = B/C

Apportionment base = (21,600,000/ 26,000,000 x 100) = 83%

VAT Payable/ claimable) = output tax-input tax

Total Output tax	3,438,000
Total Input tax	14,888,663
VAT Claimable	(11,450,663)

ii. VAT treatment of the transaction where Mr. Mukasa, one of his major clients bought sugar worth Shs. 2,100,000 and promised to pay by 30th January 2017 but has not fulfilled his promise. VAT on bad debts

Reference (Sec.43)

-Declare the VAT resulting from the transaction in the January 2017 returns

-If after two years they have not yet received payments from the supply in whole or in part and

-Taken all the reasonable steps to the satisfaction of the commissioner general to pursue payment and they reasonably believe that they will not be paid;

-They can seek a refund from the commissioner for the port of VAT not paid.

iii. Differences between cash and accrual method of accounting.

-Under cash method of accounting, the taxpayer accounts for output VAT when cash is received and Input VAT when they have paid cash for purchases while;

- Under accrual method of accounting, the taxpayer accounts for output VAT whether cash is received or not and Input VAT whether they have paid cash or not for purchases.

- (b) (i) Advise to Mondi on the VAT implications of this transaction.
- Account for the imported services on the supply, when the performance of the service is completed, or when payments are made, or when the invoice is received from the supply whichever is earliest.
 - No credit shall be allowed to any person for the VAT paid on imported services hence a cost that must be absorbed by Mondi.
 - Mondi is required to file returns and also pays VAT for the period the supply was made.
 - The taxable value of imported services is the total consideration paid in money or in kind by all persons for the services
 - VAT should be accounted on any transaction expressly deemed to be an imported service if the services would have constituted imported service if rendered by someone else

QUESTION 4

- (a) Advice to Lydia on her chargeable income and tax payable for the year ended 31st December 2016.

Item	Notes	Shs '000
Basic salary (8,500 x 12)		102,000
Over time pay (200 x 24)		4,800
Life Insurance		4,500
Cost of living allowance	1	-
Accommodation allowance		3,500
Travel allowances (800 x 6)		-
NSSF-Contribution	2	-
Motor vehicle benefit (20% x 150,000 x 365/365)		30,000
Loan benefits (30,000 x (18% - 10%) x 4/12)		800
Security guards	3	-
Lunch	4	-
Project Mgt course	5	-
Allowance for Finance Committee		2,500
Gross income		148,100
Less		
Local Service Tax		100
Chargeable Income		148,000
Tax (a) 300,000 + 30%(148,000,000 - 4,920,000)		43,224
(b) 10% x (148,000,000 - 120,000,000)		2,800
Tax		46,024

Notes – reasons why these are left out

1. Cost of living allowance:	Outside the scope of the year 2016
2. NSSF contribution:	is tax exempt-Sec 19.2.g
3. Security guards:	Such are benefits as per practice note number 6 of 2001
4. Lunch:	Specifically exempt as per section 2.e.: equal basis tests
5. Project Mgt:	Private expenditure not part of employment expenditure
6. Travel allowance	Subsistence allowance not taxable

- (b) Explanation of the circumstances where a benefit is derived in respect of employment income.
- When a benefit is provided by an employer or by a third party under an arrangement with the employer or an associate of the employer
 - When the benefit is provided to an employee or to an associate of an employee and;
 - When the benefit is provided in respect of past, present, or prospective employment
- (c) Explanation of the three (3) differences between contract for service and contract of service.
- A contract for services refers to an independent contractor while the contract of service refers to an employee
- Source of income: An employee primarily works for one employer while as an independent consultant works for multiple companies or individuals
- Tools and resources: Independent consultant uses his own tools to execute work while employee is provided with tools and resource.
- Training: Independent consultant does not receive and while for employee company provides
- Supervision & requirements: Independent consultant does not receive supervision or work hours and requirements while employee adheres to company policy and requirements.
- Filing returns: Independent consultant is required to file returns while as for an employee, it's not mandatory
- Compensation: Independent consultant as per project executed while employee as per hour or salary

QUESTION FIVE

- (a) The amount of gain arising from the disposal of an asset is the excess of the consideration received from the disposal over the cost base of an asset. Likewise the amount of loss arising from the disposal of an asset is the excess of the cost base of an asset at the time of disposal over the consideration received from the disposal. The gain is treated as business income and the loss is treated as deductible expenses
- (b) *Circumstances under which a taxpayer is considered to have disposed of an asset.*
- Sold, exchanged, redeemed, or distributed by the taxpayer
 - Transferred by the taxpayer by way of gift
 - Destroyed or lost
- (c) *Explain any 3 cases where a transaction does not give rise to a gain or loss for tax purposes on the disposal of an asset by a taxpayer.*
- A transfer between spouses;
 - A transfer between former spouses as part of a divorce settlement or bona fide separation agreement;
 - An involuntary disposal of an asset to the extent to which the proceeds are reinvested in an asset of a like kind within one year of the disposal, and
 - The transmission of an asset to a trustee or beneficiary on the death of a taxpayer.

(d) *Wear and Tear schedule for Good Life Uganda Limited, as at 31st December 2016.*

Details	Class I (40%)	Class II (35%)	Class III (30%)	Class IV (20%)	Total
Cost 01/01/2016					
Computers	15,000,000				15,000,000
27- Seater Van		13,000,000			13,000,000
5-Tonne pick up		18,000,000			18,000,000
60-seater Van			75,000,000		75,000,000
Tractor			80,000,000		80,000,000
Office furniture & fittings				25,000,000	25,000,000
2-Tonne pickup		30,000,000			30,000,000
Sub total	15,000,000	61,000,000	155,000,000	25,000,000	256,000,000
Additions					
Office furniture				4,000,000	4,000,000
3-Tonne Truck		5,800,000			5,800,000
Sub total	15,000,000	66,800,000	155,000,000	29,000,000	265,800,000
Disposals					
Computer	(2,000,000)				(2,000,000)
Total	13,000,000	66,800,000	155,000,000	29,000,000	263,800,000
Less: Wear & Tear	(5,200,000)	(23,380,000)	(46,500,000)	(5,800,000)	(80,880,000)
WDV c/d 2016	7,800,000	43,420,000	108,500,000	23,200,000	182,920,000

Note:

The purchase of a second hand printer at Shs. 990,000/ is a minor capital expenditure which does not go to the Wear & Tear Schedule as per S.26 of the ITA.

ANSWERS TO TEST PAPER 2

CPA (U) JUNE 2018

Question 1:

(a)

- (i) Determination of George's gross employment income and chargeable income for the year ended 30 June 2017.

PAYE Computation for resident individual (Mr. Makambanawe George)			
	Monthly	Annual	Notes/Reference
Motor Vehicle benefits (working 1)		19,400,000	S. 19 (1)(b) & 5th Schedule, Paragra 3
Basic Salary	8,000,000	96,000,000	S. 19 (1)(a)
Workers Quarter	Exempt	-	Practice Note 2001, Paragraph 5
Domestic Assistant & gardener @ 150,000/ per month	300,000	3,600,000	S. 19 (1)(b) & 5th Schedule, Paragra 4
Spouse's travel allowance		500,000	S. 19 (1)(b) & 5th Schedule, Paragra11
Airtime		4,800,000	S. 19 (1)(b) & 5th Schedule, Paragra 11
Phone (not taxable on employee because it remains property of the company)		-	
Loan benefit @ 7.5% (Benefit = 15% - 7.5%)		3,000,000	S. 19 (1)(b) & 5th Schedule, Paragra 7
Children's School Fees @ 2,000,000/ per year for 3 Children		6,000,000	S. 19 (1)(b) & 5th Schedule, Paragra 11
Gratuity		10,000,000	S. 19 (1)(a)
Security guards @ 450,000 x 2	Exempt	-	Practice Note 2001, Paragra 6
Medical reimbursement	Exempt		S. 19 (1)(b) & 5th Schedule, Paragra11
Medical treatment for domestic assistant		2,600,000	
Life insurance premium	Exempt	-	S.19(2)(e)
Personal loan discharge by the employer plus interest outstanding		10,000,000	S.19(1)(c)

Car gift from MD		65,000,000	S. 19 (1)(b) & 5th Schedule, Paragra 11
Full year's fuel card		15,000,000	
Holiday trip to Mombasa with family		8,000,000	S. 19 (1)(b) & 5th Schedule, Paragra 11
Accommodation benefit (market value 12,000,000)		12,000,000	S. 19 (1)(b) & 5th Schedule, Paragra 10
		255,900,000	

Gross employment income	255,900,000
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Gross employment income		255,900,000
Less: Allowable deduction		
Local Service Tax (LST) contribution to Municipal Council		(100,000)
Chargeable Income		255,800,000

Working 1

Motor vehicle benefit computation

$(20\% \times A \times B/C) - D$

A= 100,000,000

B=365

C=365

D= 50,000 x 12=600,000

$(20\% \times 100,000,000 \times 1) - 600,000 = 19,400,000$

Working 2 – Housing benefit		
15% of gross income including house rent $(255,900,000 \times 15\%) =$	Shs 38,385,000	
The lesser of (a) market rent of accommodation & (b) 15% of employment income is the market rent		

Computation of tax payable on employment income

Tax payable = $300,000 + (255,800,000 - 4,920,000) \times 30\% + 10\% (255,800,000 - 120,000,000) = 75,564,000 + 13,580,000$

=89,144,000

(b)

(i) Chargeable income and tax payable for the clinic, if any

	shs	shs
Profit before tax		(44,100,000)
Add back		
Depreciation	60,000,000	
Salary for self (Drawings)	4,000,000	
Water and electricity (30%)	2,400,000	
Rent (Private)	4,200,000	
Home expenses	7,500,000	
		78,100,000
Less		
minor capital	3,000,000	
Depreciation allowance	96,800,000	
		(99,800,000)
Chargeable loss		(65,800,000)

Capital allowances

	Class 1	Class 3	Class 4	Total
	40%	30%	20%	
Additions				
Partitioning	-	-	20,000,000	20,000,000
Computers	7,000,000			7,000,000
2 (two) Hospital examination beds			20,000,000	20,000,000
Laboratory equipment			25,000,000	25,000,000
Scanning machine			130,000,000	130,000,000
x-ray machine			140,000,000	140,000,000
Ambulance		90,000,000		90,000,000
	7,000,000	90,000,000	335,000,000	432,000,000
Depreciation	(2,800,000)	(27,000,000)	(67,000,000)	(96,800,000)
WDV	4,200,000	63,000,000	268,000,000	335,200,000

The clinic is not an approved hospital and therefore will not get any commercial building allowance.

He will have a chargeable loss in the first year and this loss will be carried forward to be offset from future profits

(ii) Conditions for exemption of income:

In order for the clinic to be exempt from tax

- It would need to be a charitable organisation of public character
- The organisation needs to have a written ruling by the commissioner currently in force stating that it is an exempt organisation
- None of the income or assets of the organisation should confer a private benefit to any person.

In order for the clinic to be considered for exemption:

- Dr George should consider the beneficiaries of the clinic as the general public.
- Any payment towards treatment should not benefit him and his family
- He should consider registering as a not for profit organisation with clearly identified objectives which do not include the earning of distributable profits.
- Apply to the Commissioner Domestic taxes for consideration
- File all the returns in the period before the commissioner considers him.

Question 2

(a) Under petroleum operations, there are basically three phases (streams):

(1) Up-stream phase:

This phase includes the exploration, promotion, development and production stages of the oil operations.

The activities in this stream include:

- drilling and exploration of the oil wells to establish the viability of the oil wells.
- if the drilled oil well is found not to be viable or no oil is found, abandonment and restoration of the area to its natural state.
- if the well is found to be viable or if production is feasible, then development of the production strategies

(2) Mid-stream phase:

This phase includes the transportation and refining stages of the oil operations.

The activities in this stream include:

Basic processing of crude oil and natural gas, and transportation to downstream facilities

(3) Down-stream phase:

This phase includes the distribution, marketing and sales stages of the oil operations.

The activities in this stream include:

Activities to further refine and supply the products to the end-user

(b) Explanation of the tax treatment of the following under Section 89 of the Income Tax Act

(i) Petroleum Exploration expenditure:

- If the cost of acquiring a depreciable asset that is treated as petroleum exploration expenditure, the asset is treated as belonging to a separate pool of assets. The depreciation rate applicable to this pool is 100%.
- If the cost of acquiring an intangible asset is treated as petroleum exploration expenditure, the intangible asset is amortized at the same rate as the assets of the petroleum exploration
- A licensee shall be allowed a deduction for petroleum exploration expenditure other than assets to which the capital allowances apply in the year of income in which the expenditure is incurred

(ii) Deductions relating to petroleum operations

- An amount that a licensee may deduct in relation to a petroleum operation undertaken by the licensee in a contract area in a year of income shall be allowed as a deduction only against the gross income derived by the licensee from the operations in the license area. (ring fencing)
- Where an amount allowed as a deduction relates partly to petroleum operations in a contract area and partly to petroleum operation in another contract area or some other activity, the deduction shall be apportioned accordingly.
- Where in any year of income, the total deductions of a licensee in relation to petroleum operations undertaken in a contract area exceeds the total gross income arising from those operations in the contract area, the excess shall be carried forward to the following year of income and shall be deducted in that year against gross income arising from the petroleum operations in the contract area, until the excess is fully deducted or the petroleum operations in the contract area cease.

- If a licensee has a loss carried forward for a contract area for more than one year of income, the loss of the earliest year shall be allowed as a first deduction.
- In case of a license granted after 31 December 2015, the allowable deductions shall be subject to the limitations on deductions specified in the production sharing agreement.

(C) Treatment of each of the items below.

	Item		Tax treatment
1	Loan amount (10,000,000 * 3,600)	36,000,000,000	
	Interest (5%)	1,800,000,000	Not allowable as a deduction but will be capitalized as Petroleum Development expenditure
2	Lease payment (120,000 * 3,600)	432,000,000	Would have been allowed if Commercial production had began but will be included in Development expenditure
3	Purchase of exploration equipment (500,000*3,600)	1,800,000,000	Capital assets allowed 100% capital allowances. This will be Development Expenditure until commercial production when they will be allowed
4	Motor vehicles (100,000,000 * 3)	300,000,000	Allowed capital allowances at 35%
5	Salaries for local staff	2,000,000,000	Aggregated to the development costs
	Salaries for expatriates(100,000*3,600)	360,000,000	Aggregated to the development costs
	Operational expenses	120,000,000	Aggregated to the development costs

Question 3

(a)

(i) Who is required to register for VAT as per the VAT Act Cap 349:

- A person who is not already a registered person dealing in taxable supply whose taxable value in any three calendar months exceeds one-quarter of the annual threshold. Such a person should register within twenty days of the end of this period.
- A person who has a reasonable ground to expect that the total value of the taxable supplies to be made by the person during the next 3 calendar months will exceed one-quarter of the annual threshold. Such a person should register at the beginning of the three-month period.
- A person who is a national, regional, or local public authority or body which carries on business activities. Such a person should register at the commencement of the business activities.
- A person supplying goods and services for consideration as part of his or her business activities, but who is not required by the VAT Act to apply for registration, may apply to the commissioner general to be registered on voluntary basis.

(ii) What obligations must a VAT registered taxpayer fulfill upon registration?

- Must regularly file returns and pay taxes thereon.
- Must keep proper accounting records.
- Must issue tax invoices to their customers.
- Account for output tax on all taxable supplies and take credit for input tax that is attributable to taxable supplies.
- For persons registered on voluntary basis, the taxpayer must remain on the VAT register for a period of 2 years regardless of the value of their taxable business turnover.

(iii) What benefits do accrue to a VAT registered taxpayer:

- Able to recover (claim) the whole or part of the tax charged by his suppliers (input tax).
- Can issue tax invoices to his/her customers who can then claim the tax charged.
- Access to business opportunities from persons who want to deal only with registered taxpayers.
- Minimise or avoid future penalty relating to non or late VAT registration at the time when your taxable turnover is above the VAT registration threshold.

- (iv) Circumstances that may lead to a taxpayer's deregistration from the VAT register by the Commissioner General?
- Has no fixed place of abode or business.
 - Does not keep proper accounting records.
 - Does not regularly file returns.
 - Is not fit and proper according to the commissioner general or the commissioner general believes that the person was wrongly registered for VAT.
- (v) Taxable supply:
Taxable supply means a supply of goods and services, other than an exempt supply, made in Uganda by a taxable person for consideration as part of his or her business activity.
- (b) Determination of when the business should be registered for VAT
The obligation to register for VAT arose in October 2017 when the Taxable sales exceeded Shs 37,500,000
He should have applied for registration by the 20th day of November and the effective date of registration being 1 December 2017

Month	Total taxable sales		VAT exclusive			
	Zero	Standard	Zero	Standard	Total Taxable (Zero + VAT exclusive)	Cummulative (Taxable)
Jul	2,800	6,300	2,800	5,339	8,139	
Aug	3,500	8,600	3,500	7,288	10,788	
Sep	4,500	11,000	4,500	9,322	13,822	32,749
Oct	5,000	12,100	5,000	10,254	15,254	39,864
Nov	5,800	13,100	5,800	11,102	16,902	45,978
Dec	6,200	14,200	6,200	12,034	18,234	50,390

Month	Total Taxable sales (Standard + Zero) Shs '000'	Total standard rated (VAT Exclusive) Shs '000'	Cumulative VAT Excl Shs '000'
Jul	9,100	8,139	
Aug	12,100	10,788	
Sept	15,500	13,822	32,749
Oct	17,100	15,902	39,864
Nov	18,900	16,902	45,978
Dec	20,400	18,234	50,390

VAT and Interest payable

Month	Standard rated sales	Output tax	Standard rated purchases	Input tax	Tax Payable
Dec	$14,200,000 \times 100/118 = 12,034,000$	2,166,120	2,000,000	262,080	1,904,040

Calculation of input tax claimable

Taxable/Total sales * input VAT

Total sales = 6,800,000 + 18,234,000 = 25,034,000

Proportion $18,234,000/25,034,000 = 0.728$

Claimable $360,000 \times 0.728 = 262,080$

Interest for unpaid VAT is $1,904,040 \times 2\% = 38,080.8$

Question 4

(a) Tax payable including tax on repatriated profit of the branch

Tax computation	
Profit before tax	1,850,000
Add	
Depreciation	350,000
	2,200,000
Less Capital allowances	(197,800)
Chargeable income	2,002,200
Tax payable (30%)	600,660

Working 1- Capital allowances

	Class 1	Class 11	Class IV	Total
	Shs'000'	Shs '000'	Shs '000'	
	40%	35%	20%	
TWDV 1/07/16	56,500	450,000	88,500	595,000
Allowance	(22,600)	(157,500)	(17,700)	(197,800)
TWDV 30/06/17	33,900	292,500	70,800	397,200

Branch profits tax calculation

	Shs '000'
$[A + (B - C) - D] * 15\%$	
A	4,400,000
B	1,850,000
C	600,660
D	4,200,000
Repatriated profit calculation	
$4,400,000 + (1,850,000 - 600,660) - 4,200,000$	
$= 1,449,340$	
Branch profits tax $(1,449,340 * 15\%)$	217,401

(b)

(i) Meaning of arm's length

The term arm's length principle is not specifically defined in the Income Tax Act. When used in transfer pricing, an arm's length price is the price payable in a transaction between two independent enterprises under the same or similar circumstances.

It is the market price charged by two independent parties/ entities.

(ii) Traditional transfer pricing methods

Comparable uncontrolled price (CUP)

This method is used to compare prices in a controlled transaction with those in a comparable uncontrolled transaction. The CUP method offers a direct way of determining arm's length price for transactions. The adjustments to be made under CUP method includes

- Differences in terms of transactions (credit terms)
- Volume of transactions
- Time of transactions
- And related party transaction

Resale Price method (RPM)

This is based on the price of a product, which has been purchased from a related enterprise, is sold to an independent enterprise. An arm's length price is determined using the resale price method by deducting an appropriate discount for the activities of the reseller from the actual resale price. The appropriate discount is the gross margin expressed as a percentage of the net sales.

Cost plus method (CPM)

This method involves comparing the mark-up of the costs directly or indirectly incurred in the supply of property or services in a controlled transaction with the mark-up of those costs directly or indirectly incurred in the supply of property or services in a comparable uncontrolled transaction. This method determines the arm's length price by adding an appropriate mark-up to the cost of production. This mark-up could be the percentage earned by the manufacturer on the unrelated party sales. The mark-up is charged to take care of functions performed, assets used and risks assumed.

Transactional profit methods

Transactional Net Margin method (TNMM)

This tests the arm's length character of transfer prices in a controlled transaction by comparing the profits earned by one of the parties engaged in the controlled transaction to the profits earned by uncontrolled parties engaged in similar business activities. Under this method, comparable companies need significant product diversity and functional diversity between controlled and uncontrolled parties in order for the transfer prices to be accepted as meeting arm's length principle.

Profit split method (PSM)

This method is used to evaluate the intercompany transfers of tangible or intangible property. It establishes whether the allocation of the combined profit or loss attributable to one or more controlled transactions is arm's length by reference to the relative value of each controlled taxpayer's contribution to that combined profit or loss. This method is generally the most appropriate when both parties to the transaction own valuable, non-routine intangibles which contribute to the profit earned on the transaction.

- (iii) Other tax implications
 Withholding tax at 15% since Uganda does not have a DTA with Japan
 $500,000,000 \times 15\% = 75,000,000$
 VAT on imported services at 18% -this is not claimable
 $500,000,000 \times 18\% = 90,000,000$.

Solution 5

- (a) Computation of the taxes/ duties payable:

	Shs
Translation of CIF Mombasa value to Shs $1,300 \times 3,645 \times 50$	236,925,000
Transport from Mombasa to Malaba $= 20,000,000$ (Mark for identifying that costs in East Africa do not constitute customs value)	0
Value for computation of the value for import duty (CIF Mombasa)	236,925,000
Import duty (25% of CIF) $25\% \times 236,925,000$	59,231,250
Value on which VAT is to be applied (CIF + Import duty)	296,156,250
VAT (18%)	53,308,125
Environmental Levy (50% of CIF value since the cars are more than 10 years)	118,462,500
Infrastructure levy (1.5% of CIF)	3,553,875
Withholding tax 6% of CIF (company not exempted)	14,215,500
Total taxes and duties payable	248,771,250

- (b) Conditions for exemption of Rally Driver – Fifth Schedule:
 One motor vehicle and spare parts which;
- 1 Are imported and purchased prior to clearance through customs for use in the rally.
 - 2 Having been temporarily imported for use in the rally are purchased during the period of temporary importation by a resident driver resident in a partner state for use in the rally.

- 3 Having been imported under exemption where remission or refund of duty has been granted by the Commissioner, are purchased by a rally driver resident in a partner state for use in the rally.
- 4 Assembled in a partner state and purchased by a rally driver for use in the rally.
- 5 One engine assembled complete or such parts making up one engine as the rally driver requires.
- 6 One gear box assembled complete
- 7 One differential assembly and one front and rear axle assembly.

ANSWERS TO TEST PAPER 3

CPA (U) AUGUST 2018

Question 1

(a) Western Cement Industries Ltd

Tax Computation for the year ended 30 June, 2017

	Shs '000'	Shs '000'
Profit before tax		61,690,000
Add back		
Depreciation of plant property and equipment	98,500,000	
Depreciation of motor vehicles	1,200,000	
Entertainment expenses	120,000	
Provision for bad debts	1,870,000	
Sponsorship for vulnerable Children	35,000	
Contribution towards independence day celebrations	20,000	
Subscriptions to Uganda Golf Union	40,000	
Finance cost	3,000,000	
Loss on sale of Land cruiser	30,000	
		104,815,000
		166,505,000
Less		
Depreciation allowances	105,340,650	
Industrial Building allowance	48,012,500	
Capital loss on sale of business asset	10,150	
		(153,363,300)
Chargeable Income		13,141,700
Tax at 30%		394,2510
Provisional tax paid		(2,100,000)
WHT tax credit on interest (2,210,000 x 15%)		(331,500)
Balance of tax payable		1,511,010

Working 1 – Capital Allowances:

Capital allowances	Class I	Class II	Class III	Class IV	Total
	Shs million	Shs million	Shs million	Shs million	Shs million
	0.4	0.35	0.3	0.2	
TWDV 1 July, 2016	750	1,900	285,050	90,000	377,700
Additions					
Mining equipment			1,000		1,000
10-Ton trucks			300		300
Mercedes Benz		60			60
Cement packing machine			1,600		1,600
10 Laptop computers	30				30
Furniture				50	50
	780	1,960	287,950	90,050	380,740
Disposals					
Toyota Land cruiser		(21)			(70)
Cement packing machine			(150)		(150)
	780	1,939	287,800	90,050	380,520
Depreciation allowance	312	678.65	86,340	18,010	105,340.65
TWDV 30 June, 2017	468	1,260.35	201,460	72,040	275,228.35

The Mercedes Benz for the Managing Director is restricted to Shs 60 million in accordance with Section 27(11) of the Income Tax Act.

Working 2 –Industrial building allowance:

Industrial building allowance	
	Shs '000'
Parking yard	12,500
250,000,000 *5%	
Factory building	
960,000,000,000 *5%	48,000,000
	48,012,500

Working 3 – Computation of gain /losses on sale of Motor vehicle:

Computation of accounting gain/loss on sale of M/V	Shs
Cost	200,000,000
Accumulated depreciation (200,000,000 *25%*2)	(100,000,000)
Net book value	100,000,000
Proceeds of sale	70,000,000
Loss on sale	30,000,000
Capital gain/ loss on business asset	
Business Asset	140,000,000
Notional capital allowances (35%)	
Jul 15 - June 16	(49,000,000)
WDV	91,000,000
Jul 16 - June 17	(31,850,000)
WDV	59,150,000
Proceeds of sale	49,000,000
70,000,000 *140,000,000/200,000,000	
Capital loss on sale	(10,150,000)

(b)

(i) Penalty for under provision:

Penalty calculation	Shs '000'
Actual chargeable income	13,162,350
90% of chargeable income	11,846,115
Estimated provisional chargeable income	7,000,000
Difference between 90% and provisional	4,846,115
Penalty - 20%	969,223

(ii) Penalty for late filing:

2% of the tax payable before subtracting any credit allowed on the taxpayer return or 10 currency points per month, whichever is higher for the period the return is outstanding. (Section 48 of the Tax Procedures Code Act).

Tax payable	3,942,510,000
2%	78,850,200
Or 200,000 x 3	= 600,000

The penalty payable is Shs 78,850,200

(iii) Interest on late payment of the tax:

Due date of payment of tax for the year ended 30 June 2017 is the due date for filing the final return which is 31 December 2017

Interest payable is 2% per month calculated from the date the payment was due until when payment is done. The tax was outstanding for 3 months.

Therefore the interest payable is $2\% \times 1,511,010,000 \times 3 = 90,660,600$.

(c) Treatment of technical fees and payments to expatriates:

Technical fees to Hardman Industries Ltd in India are subject to withholding tax at the rate of 15%

Uganda has a DTA with India and according to the DTA the rate will be reduced to 10 %.

WHT Payable = $600,000,000 \times 10\% = 60,000,000$

The expatriates will be treated as non residents since they were in the country for only 5 months (less than 183 days in the year).

According to the India-Uganda DTA, employment income derived by the engineers from India, is only taxed in Uganda if:

- The recipient is present in the Uganda for a period of 183 days in a 12 month period.
- Remuneration is paid by the Indian company.
- The Indian company does not have a PE in Uganda.

In this case the engineers have been in Uganda for only 5 months and as such their remuneration is not subject to tax in Uganda.

Question 2

(a)

(i) Compute Anderson's gross employment income for the month of July, 2017

Computation				
S/no	Description	Treatment	Ref:	Amount
1	Basic Salary	Taxable		45,000,000
2	Cost of living allowance	Taxable		2,000,000

3	Spouse Travel Allowance	Taxable		2,500,000
4	Housing benefit	Taxable	Working 1	2,825,000
5	Passage reimbursement	Exempt	S. 19(2)	-----
6	Discharge of medical bill	Exempt	S. 19(2)	-
7	Employer's NSSF contribution	Exempt	S. 19(2)	-
8	Benefit granted by employer	Exempt	S. 19(2)	-
9	House keeper	Taxable		450,000
10	Pension Scheme	Exempt	S. 19(2)	-
11	Loan benefit	Taxable	$(300,000,000 \times 5\%) / 12$	1,250,000
12	Club membership	Taxable		500,000
13	Security	Exempt	Practice Note 2001	-
14	Medical allowance	Taxable		3,000,000
15	Per diem & fuel	Exempt		-
16	Life insurance	Exempt		-
17	Motor vehicle benefit	Taxable	$(20\% \times A \times B / C) - D / 12$ (Working 2)	4,166,667
	Total Chargeable employment income			61,691,667

Workings:

1	Housing Benefit Computation	$1,500 \times 3,550 - 2,500,000$	2,825,000
		$15\% \times 61,691,667$	9,253,750

Take the lower of 15% or the market value.

The market value is the lower, therefore, housing benefit is the market value to be taken

2	Loan benefit	$(300,000,000 \times 5\%) / 12$	1,250,000
3	Motor Vehicle Computation	$(20\% \times A \times B / C) / 12 - D$	4,166,667

(ii) Determine Anderson's tax liability for the month of July, 2017.

Tax payable			
(A + B)	A	B	Total
	(61,691,667 - 410,000) X 30%		
	+25,000	(61,691,667 - 10,000,000)X10%	
	18,409,000	5,169,167	23,578,667

(b) Advise to Anderson on the following tax issues:

(i) The due date for furnishing and payment of the Monthly Pay As You Earn (PAYE) as per the Income Tax Act

- Due date for furnishing of PAYE is by the 15th of the following month.
- Due date for payment of PAYE is by the 15th of the following month.

(ii) *Advice to Bidmak on the interest due on late payment of PAYE:*

- Section 136 of the Income Tax Act:
Interest on late payment of PAYE is 2% of the tax payable per month of the tax payable.
- Section 28(5) of the Tax Procedures Code (TPC):
Despite the grant of an extension of time or permission to pay tax by installments, the liability for interest arises from the original due date for payment of the tax.

Interest on late payment of PAYE	
Interest on late payment of PAYE as per S.136 is 2%	2%
Amount unpaid	128,535,000
Period (Months outstanding (5 months))	5
Interest (2%of tax payable)	12,853,500

(c) Explanation of how foreign employment income of a resident individual is treated in Uganda as per the Income Tax Act Cap 340:

Section 81 of the Income Tax Act Cap 340,

(i) Foreign-source employment income derived by a resident individual is exempt from tax if the individual has paid foreign income tax in respect of the income.

(ii) A resident individual is treated as having paid foreign income tax on foreign-source employment income if tax has been withheld and paid to the revenue authority of the foreign country by the employer of the individual.

Question 3

(a)

(i) 'Assessment' means –

- the ascertainment of the chargeable income of, and the amount of tax payable on it, by a taxpayer for a year of income under this Act, including a deemed assessment under Section 96;
- the ascertainment of the rental income of, and the amount of tax payable on it by an individual for a year of income under this Act;
- the ascertainment of the amount of penal tax payable by a person under this Act; or
- any decision of the Commissioner which, under this Act, is subject to objection and appeal;

(ii) 'Tax obligation' means –

any duty expected of a taxpayer under a tax law and includes registration, filing and payment of a tax liability;

(b) A valid objection (Section 24 TPC Act 2014):

Summary:

- (i) Must be made within the statutory time period (45 days after receiving notice of the tax decision)
- (ii) Must be in writing (prescribed form)
- (iii) Must state the grounds for the objections (reasons for objecting) and contain sufficient evidence to support the objection
- (iv) In case of late objection, the taxpayer must state the reasons for lateness of the objection.

Or:

Section 24 TPC in detail:

- A person who is dissatisfied with a tax decision may lodge an objection with the Commissioner within forty five days after receiving notice of the tax decision.
- An objection shall be in the prescribed form and shall state the grounds upon which it is made and contain sufficient evidence to support the objection.
- Where a taxpayer has lodged an objection to a tax assessment for a tax period, the Commissioner may consider the objection if the taxpayer – (a) has furnished the return to which the assessment relates in the case of a default or advance assessment; (b) has paid the tax due under the return to which the assessment relates together with any penalty or interest due.

- A person may apply in writing to the Commissioner for an extension of time to lodge an objection and the Commissioner may, if satisfied with the grounds upon which the application is made, grant an extension for such period as the Commissioner determines.
- (c) Objection and appeal procedure to resolve a tax dispute (tax decision) between URA & a taxpayer as per the TPC Act, 2014 up to High Court:
- Objection to a tax decision:
 - A person who is dissatisfied with a tax decision may lodge an objection with the Commissioner within forty five days after receiving notice of the tax decision.
 - The Commissioner shall serve notice of an objection decision on the person objecting within 90 days from the date of receipt of the objection
 - Where an objection decision has not been served within 90 days, the person objecting may, by notice in writing to the Commissioner, elect to treat the Commissioner as having made a decision to allow the objection.
 - Where a person makes an election under subsection (7), the person is treated as having been served with notice of the objection decision on the date the person's election is lodged with the Commissioner.
 - The time limit for making an objection decision is waived where a review of a taxpayer's records is necessary for settlement of the objection and the taxpayer is notified.
 - Where the Commissioner reviews the taxpayer records under subsection (9), the Commissioner shall within the time specified in subsection (6) notify the taxpayer of the review.
 - Where the taxpayer is late on submitting their objection to assessment, a taxpayer may request for extension to object to the assessment after the statutory period on grounds of
 - sickness,
 - out of the country, or,
 - any other reasonable grounds.

- Review of an objection decision:
- Appeal to Tax Appeals Tribunal (TAT):
A person dissatisfied with an objection decision may, within 30 days after being served with a notice of the objection decision, lodge an application with the Tax Appeals Tribunal for review of the objection decision.
- Appeal to High Court
A person dissatisfied with a decision of the Tribunal may, within 30 days after being served with a notice of the decision, lodge an application with the High Court for review of the decision.
Appeal to the High Court will be on matters of law only.
- Burden of Proof
- In any proceeding under this Act—
 - (a) for a tax assessment, the burden is on the taxpayer to prove that the assessment is incorrect; or
 - (b) for any other tax decision, the burden is on the person objecting to the decision to prove that the decision should not have been made or should have been made differently.

- (d) Penalty applicable where an amount of duty or other sum of money which is due under the EACCMA remains unpaid after the date upon which it is payable in accordance to Section 249 of the EACCMA.

Where an amount of duty or other sum of money which is due under the EACCMA remains unpaid after the date upon which it is payable, An interest of two per cent (2%) per month or part of the month, of the unpaid amount shall be charged

Solution 4

- (a) Advise to Oilplus Uganda Ltd on the amount of allowable and non allowable interest:

Mention of Sec. 89 Thin capitalization and its application

Shareholder's loan	9,000,000,000
Total shareholder's fund	8,206,000,000

Allowable interest will be in a ratio of 1.5:1 (foreign debt, foreign equity)

$$\text{Debt: foreign} = 9,000,000,000 / 8,206,000,000 = 1.10$$

Allowable Interest:

=since the ratio of foreign debt to foreign equity is less than 1.5, then allow all the interest.

$$= 6\% * 9,000,000,000 * 10$$

$$= 5,400,000,000$$

Non allowable interest

= Nil

- (b) Explanation of any three (3) mandatory and five (5) discretionary powers that the commissioner general uses in tax administration:

The commissioner's powers are exercised in the imposition of tax, determining chargeable income, Assessments, objections & appeals, collection and recovery of tax, refund, interest, offences and penalties.

Mandatory powers:

- Impose tax on any person who has chargeable income for the year of income
- Impose penalty for late filing and payments of taxes
- Powers to use distress means to recover taxes
- Powers to re characterize incomes and deductions for the purposes of determining liability.

Discretionary powers:

- Grant taxpayers credit for expenditures and losses incurred by the person during the year of income to the extent that they were incurred in the production of income. (Section 22-38)
- Powers to grant taxpayers to use substituted year of income rather than normal year
- Powers to accept taxpayers to use either cash basis or accrual basis of accounting

- Powers to grant extension of time to furnish a return of income
 - Powers to process refunds in respect of any year of income
 - May advise the minister to remit, in whole or in part, any interest charged.
- (c) (i) The meaning of arms length principle:
In relation to a controlled transaction, means the results of the transaction are consistent with the results that would have been realised in a transaction between independent persons dealing under the same conditions.
- (ii) Options are available to the commissioner incase a taxpayer fails to demonstrate arms length principle:
- The commissioner may adjust the profits upwards to what they would have been if arms length pricing had been used
 - Re-characterise a transaction or an element of a transaction that was entered into as a tax avoidance scheme
 - Disregard a transaction that does not have substantial economic effect or
 - Re-characterise a transaction the form of which does not reflect the substance.

Solution 5

- (a) Computation of VAT payable/ claimable:

Input tax:

Particulars	Amount UShs	VAT (18%)	Comment
Computers	22,000 x 3,500 =77,000,000	13,860,000	Standard rated
Floor tiles	85,000 x 3,500 =297,500,000	53,550,000	Standard rated
Radios	15,000 x 3,500 =52,500,000	9,450,000	Standard rated
Medical equipment	50,000 x 3,500 = 175,000,000	0	Exempt
Mosquito nets	50,000 x 3,500 = 175,000,000	0	Exempt
Diapers	75,000 x 3,500 = 262,500,000	0	Exempt

Coffee roasters	$80,000 \times 3,500 = 280,000,000$	0	Exempt
Hoes	$36,000 \times 3,500 = 126,000,000$	0	Zero rated
Rice	600,000,000	0	Zero rated (grown in Uganda)
Wheat	450,000,000	0	Zero rated (grown in Uganda)
Maize	1,000,000,000	0	Zero rated (grown in Uganda)
Total		76,860,000	

Output VAT:

Particulars	Amount UShs	VAT(18/118)	Comment
Computers	35,000,000	5,338,983	Standard rated
Floor tiles	210,000,000	32,033,898	Standard rated
Radios	15,000,000	2,288,135	Standard rated
Medical equipment	140,000,000	0	Exempt
Mosquito nets	157,500,000	0	Exempt
Diapers	280,000,000	0	Exempt
Coffee roasters	105,000,000	0	Exempt
Hoes	70,000,000	0	Zero rated
Rice	300,000,000	0	Zero rated
Wheat	150,000,000	0	Zero rated
Maize	450,000,000	0	Zero rated
Total		39,661,016	

Option 1

Mugaga Ltd is dealing in both taxable and exempt supplies and therefore the input VAT claimable is restricted to the proportion of taxable supplies against the total supplies.

Total Taxable supplies = 1,190,338,983

Total supplies = 1,872,838,983

Input VAT Claimable = $63.55\% \times 76,860,000$
= 48,850,678

Output – input VAT Claimable $39,661,016 - 48,850,678 = (9,189,662)$
Shs 9,189,662

Option 2

Standard Alternative method

Input tax attributed to taxable supplies = 76,860,000

Input tax attributed to exempt supplies = 0

=Input tax claimable = 76,860,000

VAT claimable = output – input = 39,661,016 – 76,860,000 = 37,198,984

Mugaga Limited is therefore advised to seek approval from the Commissioner General to use Standard Alternative Method.

- (b) (i) The due date for filing the March 2018 was 15 April 2018.
- (ii) A person who fails to lodge a return within the required time under the VAT Act is liable to pay a penal tax amounting to whichever is the greater of the following:
- Two hundred thousand shillings; or
 - An interest charge of 2% per month compounded for the period the return is outstanding
- (iii) There is a tax refund due and so the computation of the 2% of tax outstanding is lower since it will yield an amount of (9,189,662) x 2% = (183,793)

The penalty payable is therefore Shs 200,000.

ANSWERS TO TEST PAPER 4 CPA (U) NOVEMBER 2018

Solution 1

- (a) Computation of A& M Progressive Senior School Ltd chargeable income and tax payable for the year ended 31 December, 2017

	Shs'000'	Shs'000'	Shs'000'
Net profits before tax			62,000
Add: Disallowed/ Non Allowable deductions			
Depreciation		680,000	
Loss on disposal of Toyota Corolla		2,900	
Provisions-Spoilt foods		25,000	
General provisions		51,000	
Contribution for wedding of Head teacher's son		16,000	
Donations- Mukono Orphanage Centre		15,000	
Provision for school fees arrears		4,000	
Salary advance-Bad debts		11,000	
Salary advance-Administrative expense		24,000	
Life insurance premium		32,000	
Christmas hampers		16,000	
			876,900
			938,900
Less: Allowed/ Allowable deductions			
Intangible Assets-Software	28,000/5	5,600	
Gain on disposal of Old computers		1,210	
IBD-School Building- 5%*1,500,800*365/365	75,040	75,040	
IBD-Parking lot-5%*27,000*365/365	1,350	1,350	
Wear & Tear		311,891	(395,091)
Chargeable Income			543,809
Tax @ 30%			163,142.
Less WHT on interest			7,200
Tax payable			155,942.7

W1: Wear and Tear Schedule

	Shs'000'	Shs'000'	Shs'000'	Shs'000'	
Item	Class I	Class II	Class III	Class IV	
WDV B/f	30,000	120,500	220,000	180,000	550,500
Additions					
Mini Bus		70,500			70,500
Isuzu Buses			400,000		400,000
Photocopying machines				15,000	15,000
Tractor Engine			38,000		38,000
New Furniture				29,000	29,000
Partion-Furniture				2,800	2,800
Subtotal 1	30,000	191,000	658,000	226,800	1,105,800
Disposals					
Toyota Corolla		(12,100)			
Old computers	(4,210)				
Subtotal 2	25,790	178,900	658,000	226,800	1,089,490
Depreciation Allowance	10,316	62,615	197,400	45,360	315,691
WDV C/f	15,474	116,282	460,600	181,440	773,799

Note: Donated computers do not get any capital allowances because no expenditure was made to acquire them.

W2: Gain/Loss on disposal of Motor Vehicle-Toyota Corolla

	Shs'000'	Shs'000'
Proceed from disposal	12,100	
Net book value/ cost	15,000	
Loss on disposal		-2,900

W3: Gain/Loss on disposal of old computers

	Shs'000	Shs'000
Proceed from disposal	4,210	
Net book value/ cost	3,000	
Gain on disposal		1,210

- (b) Advise A&M Progressive Senior School on:
- The due dates for filing provisional and final returns for the year ended 31 December ,2017
 - Provisional returns: by the 30 June, 2017.
 - Final returns: by 30 June, 2018.
 - Penal tax for failing to maintain proper records.
Double the amount of tax payable by the person for the period to which the failure relates.
 - Tax treatment of non- cash income earned by the school.
Schools usually request that students carry non- cash items like hoes, stationary, pangas, brooms, chain links, etc. This is normally treated as income earned by schools and therefore as per section 18.1. (e), the value of any gifts derived by a person in the course of, or by virtue of, a past, present or prospective business relationship is treated as business income. As per Sec 56.1, the value of these benefits in kind is the fair market value of the benefits at the time the benefit is taken into account for tax purposes.
- (c) The meaning of 'Exempt Organisation' as per the Income Tax Act Cap 340, Laws of Uganda.
Means any company, institution, or irrevocable trust and they include the following:
- Amateur sporting association.
 - Religious, charitable or education institute of a public character, or
 - Trade union, employees association, association of employers registered under any law of Uganda or an association established for the purpose of promoting farming, mining, tourism, manufacturing, or commerce and industry in Uganda.
 - a body established by law for the purpose of regulating the conduct of professionals and, the organisation has obtained a written ruling from the commissioner stating that they are exempt organisation.
 - None of the income or assets of which confers, or may confer a private benefit on any person.

- National Medical Stores.
- (d) Advice to the directors on the process they should follow in order to obtain the income tax exemptions.
- Procedure to follow to obtain income tax exemption from URA
- Taxpayer completes Form DT 1015 Exemption Ruling application. (*Either a manual or online application*).
 - Taxpayer submits a copy of a dully signed application together with the relevant attachments to any DT office.
 - Relevant attachments include:
 - Memorandum and Article of Association / Constitution/Trust Deed/ Rules and Regulations
 - List of names and TINs of Office beares.
 - Copy of Tenancy agreements/Certificate of title.
 - Audited Financial Statements for the last three years. (for existing Organizations).
 - Applicant's Bank statements for the last three years (for existing Organizations).
 - A current letter of confirmation from District Administration/Local Authority under which activities/ operations are carried on.
 - A letter confirming activities from the relevant government department or umbrella association/organization under which activities carried on fall.
 - A letter confirming activities from the relevant government department or umbrella association/organization under which activities carried on fall.
 - Any other documents or brochures that may be relevant in confirming the existence of operations.
 - A list of assets held or owned by the Applicant.

Solution 2

- (a) The amount of any gain arising from the disposal of an asset is the excess of the consideration received from the disposal over the cost base of the asset at the time of disposal.

The amount of any loss arising from the disposal of an asset is the excess of the cost base of the asset at the time of disposal over the consideration received for the disposal.

- (b) The amount of any gain derived by a person on the disposal of a business asset during a year of income is included in business income, and the amount of any loss incurred by a person on the disposal of a business asset during a year of income is allowed as a deduction.

- (c) Tax treatment

Determination of Accounting loss/gain	
cost	200,000,000
Depreciation 2015	(40,000,000)
NBV 2015	160,000,000
Depreciation 2016	(40,000,000)
NBV 2016	120,000,000
proceeds of sale	95,000,000
Loss	(25,000,000)
Accounting loss not allowed deduction for tax purposes and is added back in the tax computation	

Determination of tax loss/gain	
Cost of business asset (200,000,000 - 60,000,000)	140,000,000
Notional depreciation 2015 (35%)	(49,000,000)
Notional TWDV 2015	91,000,000
Notional depreciation 2016 (35%)	(31,850,000)
Notional TWDV 2016	59,150,000
Sales proceeds(95,000,000 *140,000,000/200,000,000	66,500,000
Capital gain	7,350,000
The capital gain is taxable income and is added back in the tax computation	

(d) Computation of capital gain or loss.

- The cost base of the business asset (land) will be Shs. 300,000,000.
- Shs. 700,000,000 being the cost of an industrial building which is a depreciable asset will be excluded from the cost base but will be subjected to Industrial Building allowance.
- Where an industrial building is sold together with land, the value of the land shall be the difference between the total consideration and the tax written down value of the building.
- Tax written down value of the building will be
 - Cost of Depreciable asset
700,000,000
 - Less Capital allowances (IBA) $(700,000,000 \times 5\% \times 9\text{yrs})$
(315,000,000)
 - Cost base of depreciable asset - 385,000,000
- Sales proceeds for the business asset (Value of the land)
 $1,500,000,000 - 385,000,000 = 1,115,000,000$
- Gain on sale $1,115,000,000 - 300,000,000 = 815,000,000$
- Shs. 815,000,000 will be included in Gross Income and will be taxed at 30%.

Solution 3

(a) (i)

Identifying that Nalumansi is a presumptive taxpayer whose turnover is less than Shs. 150 million and that rental income is treated separately.

Business Income

Gross incomes-Retail Shop		104,812,000
Tax	Shs. 1,687,500 or 1.5% *104,812,000 whichever is lower	
		1,572,180

Rental Income

Gross rental income		32,000,000
Less: 20% *32,000,000	Statutory rate	6,400,000
		25,600,000
Threshold-2,820,000		2,820,000
Chargeable rental income		22,780,000
Tax @ 20%		4,556,000
Total tax payable	(1,572,180+4,556,000)	6,128,180

(ii)

Nalumansi as an individual taxpayer is required to file her provisional return for the year ended 31 December 2017 by 31 March 2017. Then the taxes are paid quarterly by 31 March, 30 June, 30 September and 31 December 2018. Then her final return will be filed by 30 June 2018 and any balance of the tax due will also be paid by the date of 30 June 2018.

However, the current practice by the URA is that a presumptive taxpayer is required to register a payment with URA by the due date of filing the first provisional tax in this case by 31 March 2017 and the payment will be treated as the tax return. In this case, all the tax will be paid in one instalment and there will be no other requirement from the presumptive tax payer to make any further filing.

(b) Advance assessment is assessment that is raised in circumstances where the commissioner is satisfied that there is a risk that a taxpayer may delay, obstruct, prevent, or render ineffective payment or collection of tax that has not yet become due.

-Persons liable to pay advance tax: Passenger transporters or freight transporters where the goods vehicle used has a loading capacity of at least 2 tonnes.

-Rate of tax:

- Passenger service vehicles- Shs. 20,000 per seat per year.
- Goods vehicle- Shs. 50,000 per ton per year.

Solution 4

(a) Bill of lading

This is an official document prepared by the carrier/shipper duly for goods of shipment and it contains the following information; the serial number, type of bill of lading / Airway Bill (master, House, combined transport, non-negotiable), date and place of issue, date shipped on board, name of the shipping line, name of the consignee, name of the vessel, the items shipped, the quantity and weight of goods, port of loading, the point of destination, preceding documents (if any), pre carriage information, signatures and stamps.

Sometimes the Bill Of Lading (BOL) is To Order of a bank, individual or company. In such cases the ownership will only change through endorsement on the reverse of the BOL in favour of a third party. It is a requirement for original or non-negotiable copy to be attached to all import whether for direct clearance or warehousing entries where the goods were imported by the sea.

(ii) Importance of bill of lading:

- A receipt issued by the carrier that the goods have been loaded on the conveyance. It is issued to the shipper by the carrier to act as an evidence of contract of carriage of goods by sea.
- It is a document of title and whoever, his or her name is mentioned in it is the owner of the goods therein.
- Because it is a document of title of goods, the bill of lading can be used as a negotiable instrument and can be traded much in the same way goods may be traded. You can use it to trade goods even before they arrive at the point of destination (transfer of ownership of goods).
- It can indicate the terms of sale by listing the incoterms, e.g; CIF Mombasa, FOB, etc. It also shows the value of goods for tax computation purpose.

- (b) Explanation of the term Authorized Economic Operator (AEO) and explanation of any three (3) benefits of AEO scheme to businesses.

-It is a trade facilitation program which Customs Department in URA is under taking to facilitate trade and promote security of international trade supply chain. Under this arrangement, businesses which comply with customs procedures, laws and regulations will benefit from customs preferential treatments such as fast clearance of their goods through simplified procedures, reduced inspection

- a) Be able to submit electronic declarations without Supporting documents.
- b) Be in position to make pre arrival declarations.
- c) Be able to self-manage bonded warehouses (bond operators).
- d) Get priority treatment when cargo is selected for control.
- e) Choose a place of physical examination of goods; if customs needs to perform any control functions.
- f) Automatically renew licences after paying necessary license fees.
- g) Be able to get withholding tax exemption status.
- h) Have extended licence period.

An individual or business in the long term will;

- a) Reduce the cost of doing business: Costs related to customs enforcement shall be avoided. Delays and risks will be reduced which will reduce on insurance costs.
- b) Enhanced reputation and image AEO status gives a special status to an individual/business. AEO certification will enhance the business image and this will attract clients to do business with the AEO because it will be a trusted company.
- c) Because of quicker clearance of goods, the AEOs' turnaround time will increase which will lead to increased turnover hence improved profitability of the business
- d) Improved quality of service: Authorised companies will be able to offer better service than unauthorized competitors because of the simplified clearance processes.
- e) Trust worth and compliant businesses: Companies with an AEO status give confidence to shareholders and may attract investors. This is because they are seen to be trust worthy and complaint.
- f) Improved internal control systems: A company with such a status is required and expected to maintain robust internal system and controls. This ultimately means that internal business risks and threats are reduced.

- (c) Explain the punishment given to a taxpayer that removes or tampers with a customs seal under the EACCMA 2004.
- A person who willfully removes a customs seal from any ship, aircraft, vehicle, train or package without the authority of a proper officer or in circumstances contrary to the regulations or who willfully alters, defaces, obliterates or imitates, any mark placed by an officer on any package commits an offence and shall be liable on conviction to imprisonment for a term not exceeding three years or to a fine not exceeding two thousand five hundred dollars or to both.
- (d) Computation of customs tax

Item	Amount
CIF Mombasa	1,240
CIF Mombasa (5 Cars)	6,200
Total CIF Mombasa in Ugx	22,630,000
Import Duty (ID = 25% on CIF)	5,657,500
VAT (18% on CIF & ID)	5,091,750
WHT (6% on CIF)	1,357,800
Environmental Levy (EL=35% on CIF)	7,920,500
Total Tax Payable in (Ugx)	20,027,550

Question 5

(a) Baltonez Logistics International.

Amount of VAT payable or claimable by Baltonez Logistics International for the month of December, 2017.

Item	Amount	Input VAT	Output VAT	Note
Rent Expense				
Office Rent	2,000,000	305,085		Standard Purchases Rated
Director's Rent	750,000	-		Private Expense
Transportation of Goods (Kampala - Nairobi)	65,000,000		-	Zero Rated Supply
Power & Water Bill	500,000	76,271		Standard Purchases Rated
Brand New Toyota Prado for Managing Director	169,000,000	-		Not claimable
Transportation of Goods (Nairobi - Mbarara)	18,900,000	-		Zero Rated Supply
Telephone expense	1,900,000	260,847		Standard Supply (90% claimable) Rated
Transportation of Goods (Kampala - Adjumani - Northern Uganda)	208,000,000		37,440,000	Standard Rated Sales
Computers (10 Computers purchased on Credit)	35,100,000	5,354,237		Standard Purchases Rated
Transportation of Petroleum Products (Mombasa - Rwanda Via Uganda)	117,000,000		-	Zero Rated Supply
Trucks (2 Trucks)	156,000,000	23,796,610		Standard Rated

purchased one on Credit & one for Cash)				Purchases
Disposal of Office Furniture	26,000,000		4,680,000	Standard Rated Sales
Total		29,793,050	42,120,000	VAT Payable = 12,326,950

(b) Explanation of at least five (5) circumstances under which a VAT registered taxpayer may claim for VAT refund from Uganda Revenue Authority (URA).

- When input tax (VAT) is greater than output tax (VAT). For instance if for a given tax period the input tax is Shs. 20,000,000 and the output tax is Shs. 12,000,000 then the difference of Shs. 8,000,000 would be refundable to the taxpayer.
- When a taxpayer pays more than what was supposed to be paid, the excess is refunded. For example, if one pays Shs. 10,000,000 and it is discovered later that the true tax was supposed to be Shs. 8,000,000, then the excess of Shs 2,000,000 is refunded.
- When one loses the stock (inventory) through fire, burglary and any other proven methods
- When there is a proven bad debt. A bad debt for VAT refund considers the following;
 - ✓ Should have been outstanding for a period of at least two (2) years
 - ✓ There should be proof that all necessary steps were taken to recover the money to no avail
- VAT refund to privileged persons. Privileged persons claim back VAT incurred on all expenses they make in Uganda. Privileged persons include Diplomats; Diplomatic missions e.g. embassies and entities listed in the first schedule of the VAT Act. These must show proof of VAT paid and each individual expenditure should be exceeding Shs. 50,000. The refund in case of monthly return is paid within thirty (30) days beyond which interest accrues.

(c) What penalty would a VAT registered taxpayer suffered when they submit (file) and pay VAT to URA late according to the VAT Act?

- The penalty for late filing of VAT return is two hundred thousand shillings or 2% interest charge per month, compounded for the period the return is outstanding.
- The penalty for late payment of VAT is 2% per month compounded.

ANSWERS TO TEST PAPER 5

CPA (U) JUNE 2019

Solution 1

(a)

(i) Computation of chargeable income and tax payable for the year ended 30 June, 2018.

	Shs'000'	Shs'000'
Profit (Revenue) Before Tax (PBT)		15,155,412
Add Back: Non allowed deductions:		
Depreciation	179,502	
Bribes to the district officials	55,000	
Payment to URA Officials for tax clearance certificate (TCC)	4,500	
Provision for bad debts	12,800	
Building repair expenses (Building on Plot 52 Mamdani Road)	18,000	
Unrealized exchange loss	3,011	
Security cost (Office Security & Building on Plot 52 Mamdani Road)	147,108	
Penalty for late submission of VAT returns	4,800	
Cleaning and compound maintenance cost	13,802	
PAYE Cost	111,642	
Income Tax paid for business	14,965	
Police fines and penalties	1,916	
Group life insurance for directors	20,298	
Entertainment and end of year party expenses	5,412	
		592,756
Total gross income		15,748,168
Less: Allowable deductions:		
Rental Income from Property on Plot 52 Mamdani Road	(11,129,295)	
Unrealized exchange gain	(364,287)	
Depreciation allowance	(932,002)	
		(12,425,584)
Chargeable Income		3,322,584
Less: Loss brought forward		(1,508,000)
Taxable Income		1,814,584
Tax (30%)		544,375
Less: Provisional Income Tax Paid		(1,000,000)
Less: WHT deducted at source for business		(120,000)
Less: WHT on interest		<u>180,476</u>
Tax claimable from URA for the year.		<u>756,101</u>

Wear & Tear Schedule

	Class 1 (40%)	Class 2 (35%)	Class 3 (30%)	Class 4 (20%)	Total
Opening WDV	140,603	522,933	714,235	379,425	1,757,197
Additions					
Computers	11,347				11,347
Motor vehicles		289,068			289,068
Plant & machinery			206,356		206,356
Office furniture				1,174,800	1,174,800
Disposal					
Total for the year	151,950	812,001	920,591	1,554,225	3,438,767
W & T	(60,780)	(284,200)	(276,177)	(310,845)	(932,002)
WDV C/f	91,170	527,801	644,414	1,243,380	2,506,765

Rental income tax computation

Rental Income from Property on Plot 52 Mamdani Road)		11,129,295
Less: Allowable deductions for rental income		
Building repair expenses (Building on Plot 52 Mamdani Road)	18,000	
Security cost (Office Security & Building on Plot 52 Mamdani Road)	147,108	
Cleaning and compound maintenance cost	13,802	
		(178,910)
Less		
Commercial building allowance		(220,000)
Chargeable Rental Income		10,730,385
Tax (30%)		3,219,115
Less: WHT on rental deducted at source		(660,000)
Rental Tax Payable to URA for the year ended 30 June 2017.		2,559,115

Working for Commercial building allowance

	Shs
Cost	3,900,000,000
Renovation cost	500,000,000
Total Qualifying cost	4,400,000,000
Allowance 5%	220,000,000

- (b) Explain the following terms and their treatment as per the Income Tax Act Cap 340:
- (i) **Balancing Charge:**
Balancing charge arises where proceeds from asset disposals in a pool exceed the Written Down Value (WDV) of the pool at the end of the year. This is the equivalent of gain on disposal calculated using tax rules. Balancing charge is included in business income in the year of income (add back).
 - (ii) **Balancing allowance:**
Balancing allowance arises where proceeds from the disposal of all the assets in a pool are less than Written Down Value (WDV) of the pool at the end of the year. This is the equivalent of loss on disposal calculated using tax rules. Balancing allowance is an allowable deduction during the year of income (allowable deduction).
- (c) (i) Due date for filing and payment of provisional and final income tax for a corporation.
- According to S. 16(8)(c), of the TPCA Provisional return is due on or before the last day of the sixth month of the year of income.
 - According to S. 16(8)(a), of the TPCA a final income tax return, every taxpayer shall furnish a return of income for each year of income of the taxpayer not later than six months after the end of that year.
 - The due date for payment of the provisional tax estimate is on or before the last day of the sixth and twelfth months of the year of income, in respect of a taxpayer's liability for a period of six or twelve months.
 - The due date for payment of the final income tax is not later than six months after the end of that year.
- (ii) **Penalty for late filing and payment of provisional and final income tax.**
- The penalty for late submission of a provisional estimate of income and final income tax return is equal to 2% of the tax payable under the return before subtracting any credit allowed to the taxpayer on his or her tax return or 10 currency point per month, whichever is higher, for the period the return is outstanding (S. 48 TPC).
 - The penalty for late payment of provisional estimated tax and final income tax is equal to 2% per month for the period the return is outstanding.

Tax treatment of the professional fees paid to Romano Construction International
The amount is subject to withholding tax at 15%.
However Uganda and India have an agreement for the avoidance of double taxation where the rate will be reduced to 10%.

Calculation

Management fees
WHT at 10%

150,000,000
15,000,000

Solution 2

Mr. Byamungu

Computation of chargeable income for the year ended 30 June, 2018

	Shs'000'	Shs'000'
Profit before tax		259,815
Add back		
Depreciation	150,225	
Provision for bad debts	4,000	
Donation	5,000	
Salaries - MrByamungu	10,000	
Water and electricity	3,600	
Transport and fuel	1,200	
Farm expenses	29,550	
Insurance	620	
School fees	2,000	
		206,195
Less		
interest earned on fixed deposit account	15,000	
Dividends from Byansi Limited	30,000	
Pension	11,460	
IBA	25,000	
Depreciation allowance	49,078	
		(130,538)
Chargeable income		335,472
Tax payable		121,012.79
less provisional		(80,275)
less WHT		(9,050)
Balance payable		31,687.79
Calculation of tax payable		
$300 + 30\% * (335,472 - 4,920)$		99,465.60
$10\% * 335,472 - 120,000$		21,547.19
		121,012.79

Workings

	Class 2	Class4	Total
	Shs '000'	Shs '000'	Shs '000'
	35%	20%	
WDV 1/07/2017	12,569	98,395	110,964
additions			
Staff quarters		125,000	125,000
	12,569	223,395	235,964
Depreciation	(4,399)	(44,679)	(49,078)
WDV 30/06/2018	8,170	178,716	186,886

IBA	
Qualifying cost	1,000,000
Allowance	50,000
Only 50% allowed	25,000

According to Section (29), where an industrial building is only partly used by a person during a year of income for prescribed uses, the amount of the depreciation deduction allowed shall be proportionately reduced.

Note:

According to Section 38 where the total farming income derived by a taxpayer who is an individual is exceeded by the total deductions allowed to the taxpayer related to the production of that income the amount of the excess "assessed farming loss", may not be deducted against any other income of the taxpayer for the year of income, but shall be carried forward and allowed as a deduction in determining the chargeable farming income of the tax payer in the following year of income.

- (b) Procedure for objecting to an assessment issued by the URA.
- Mr. Byamungu should lodge his objection to the URA within 45 days after receiving an assessment for failing to file the return on time
 - The objection should be in a prescribed form (through the URA Portal)
 - Should state the grounds upon which it is made (absence from Uganda is an acceptable
 - Contain sufficient evidence to support the objection (evidence in the form of air tickets and passport to prove absence from Uganda will need to be presented)
 - The tax for the period should have been paid in order for the Commissioner to consider the objection.

Solution 3

(a) Computation of VAT payable or Claimable by TPUL for the month of September 2017

Item	VAT Exclusive, Shs'000'	VAT, Shs'000'	Remarks
a) Sales			
Sales of computers-Magezi distributors	50,000	9,000	
Sale of photocopiers-Unregistered taxpayer	18,000	3,240	
Servicing computers & server-China Engineering	76,000	13,680	Deemed VAT. Not paid
Install Scanner-Kamazi Hospital-Kigali	38,000	0	Exports-Zero rated
Donation-Furniture	200	36	
Cameras & accessories-Diplomat (Brown)	8,000	1,440	
Total Output VAT		13,716	
b) Purchases & Expenses			
Rent-Naguru	30,000	5,400	
Software-Patel	38,000	6,840	Deemed VAT. Not paid
Electricity	5,450	981	
Stationary	1,700.5	306.1	
Imported Truck-Japan (working 1)	148,500	26,730	
Fuel-Generator	600		Exempt
Food supplies-Karil	7,000	1,260	Entertainment not claimable
Packing materials-JM	15,200	2,736	
Demand Note-Tamale Consults	12,000		Already accounted in Aug 2017 VAT returns
Life insurance-Assured insurance company	16,000		Exempt
Total creditable input VAT		36,153	
VAT payable/ (claimable)	(13,716 - 36,153)	(22,437)	

W1 : Taxable value-Imported Truck

Cost, Insurance &	36		
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Freight			
CIF-Shs @ 3,300 per \$	118,800		
Import duty @25%	29,700		
Value for VAT	148,500		
VAT @18%	26,730		
(b) Penalty for late filing			
Computation of Penalty for Late Filing-65.2			
The return is late by 1 month			
The higher of 200,000 or 2% per month of the unpaid tax			
Therefore penalty is	200,000		

(c) VAT Treatment of imported services

- A person who receives imported services other than an exempt supply shall charge VAT of 18% on the supply.
- The person is required to account for VAT by the 15th of the following month following the month the transaction took place and in any case on the earlier of;
- The person is required to account for the VAT when the performance of the service is completed, or
- When payments for the service is made, or
- When the tax invoice is received from the foreign supplier,

Solution 4

(a) Meaning of branch in accordance with the Income Tax Act, Cap 340.

Branch means a place where a person carries on business, and includes;

- A place where a person is carrying on business through an agent, other than a general agent of independent status acting in the ordinary course of business as such;
- A place where a person has, is using, or is installing substantial equipment or substantial machinery for ninety days or more;
- A place where a person is engaged in a construction, assembly, or installation project for ninety days or more, including a place where a person is conducting supervisory activities in relation to such a project; or
- The furnishing of services, including consultancy services, by a person through employees or other personnel engaged by the person for such purpose, but only if activities of that nature continues for the same or a connected project for a period aggregating more than ninety days in any twelve-month period.

(b)

(i) Definition of the term "Management charge" according to the Income Tax Act Cap 340.

- "Management charge" means any payment made to any person, other than a payment of employment income, as consideration for any managerial services. However calculated {S.78(b)}.
- Examples include consultancy fees etc

(i) Computation of tax payable on loan interest, professional services, technical services and IT software payments.

Payment of interest on loan	Amount
Loan Amount	300,000,000
Interest charge (20%)	60,000,000
WHT on the interest charge (10% instead of 15% because of DTA)	6,000,000

Payment for professional services	Amount
Management Charge Amount	35,825,000
WHT on the Management charge (10% instead of 15% because of DTA)	3,582,500

Payment for technical services	Amount
Technical Services Charge Amount	58,000,000
WHT on the Management charge (10% instead of 15% because of DTA)	5,800,000

Payment for it software	Amount
IT Software Amount	25,000,000
WHT on the Management charge (10% instead of 15% because of DTA)	2,500,000

(iii) Determination of the branch repatriated income and tax payable on the repatriated income in accordance with the Income Tax Act, Cap 340.

Item	Amount
REPATRIATED PROFIT FORMULA = {A + (B-C) - D}	
A	1,560,000,000
B	286,000,000
C	85,800,000
D	1,391,000,000
REPATRIATED INCOME	
{1,560,000,000 + (286,000,000 - 85,800,000) - 1,391,000,000}	369,200,000
TAX ON REPATRIATED PROFIT = 15% X 369,200,000	55,380,000

Solution 5

(a) Computation of taxes due and payable

Computation of CIF Value for Wheat flour imported

Particulars	Amount USD	Exchange rate	Amount Shs
Cost (FOB)	55,000	3,605.3	198,291,500
Shipment	8,500	3,605.3	30,645,050
Insurance on board	1,200	3,605.3	4,326,360
CIF Mombasa			233,262,910

Computation of taxes payable on wheat flour

Description	Amount for tax UGX	Rate of tax	Tax amount	
CIF Mombasa	233,262,910			
Import Duty	233,262,910	50%	116,631,455	
VAT	349,894,365	18%	62,980,986	Value for VAT includes import duty
Withholding tax	233,262,910	6%	13,995,775	
			193,608,216	

Computation of CIF Value for Hard Wheat grain imported

Particulars	Amount USD	Exchange rate	Amount UGX
Cost (FOB)	30,000	3,655.26	109,657,800
Shipment	8,500	3,655.26	31,069,710
Insurance on board	1,200	3,655.26	4,386,312
CIF Mombasa			145,113,822

Computation of taxes for hard wheat grain imported.

Description	Amount for tax UGX	Rate of tax	Tax amount	
CIF Mombasa	145,113,822			
Import Duty	145,113,822	35%	50,789,838	
VAT	195,903,660	18%	35,262,659	Value for VAT includes import duty
Withholding tax	145,113,822	6%	8,706,829	
Infrastructure levy	145,113,822	1.5%	2,176,707	
			96,936,033	

(b) Procedure for objection to the Commissioner Customs

- Any person aggrieved with the decision of the Commissioner or any other officer on matters relating to customs shall within 30 days of the date of the decision appeal to the Commissioner against that decision.
- The appeal shall be lodged with the Commissioner in writing stating the grounds upon which the appeal is made/ lodged
- The Commissioner shall within a period not exceeding 90 days of the receipt of the appeal communicate his or her decision in writing to the appellant stating reasons for the decision.
- Where the Commissioner has not communicated a decision to the appellant within 90 days after receipt of the appeal, the Commissioner shall be deemed to have made a decision to allow the appeal
- Provided where the appellant delays in furnishing the Commissioner with the required information regarding the appeal, the Commissioner shall upon informing the appellant of the fact, delay communicating the decision for such further period not exceeding 90 days.
- During the period of the appeal, the Commissioner shall release on the request of the appellant release the goods in question to the appellant.
- If the appellant has not paid the duty levied, the Commissioner may require the appellant to pay the duties levied or provide such security as the Commissioner may determine before the release of the goods
- If the appellant is not satisfied with the decision of the Commissioner, he may appeal to an independent authority such as the Tax Appeals Tribunal or Court

ANSWERS TO TEST PAPER 6

CPA (U) AUGUST 2019

Question 1

Computation of BUL's chargeable income and income tax payable for the year ended 31 December 2018.

a) (i)

	Shs '000'	Shs '000'
Profit before tax		1,748,200
Add back		
Payment to URA officers	50,000	
Interest on loan	70,000	
Depreciation	8,890	
Donations	5,000	
Unrealised exchange loss	307,000	
Payment to Kaku Engineers	100,000	
Express penalty	1,200	
Payment to NEMA	10,000	
Amortization	24,000	
School fees for MD's Children	10,000	
Provision for bad debts	22,010	
Less		608,100
Gain on sale of assets	10,200	
Unrealized exchange gain	18,780	
Minor capital equipment (chairs)	4,000	
Dividends from KY Transporters	12,500	
Capital allowances	91,368	
		(136,848)
Chargeable income		2,219,453
Tax at 30%		665,836
Less provisional tax		(450,000)
Balance of tax payable		215,836

The dividends received from KY Transporters are exempt from tax under section 74 (2). Dividend paid by one resident company to another resident company where the company receiving the dividends controls directly or indirectly, 25% or more of the voting power of the company paying the dividend

Working 1
Capital allowances

	class 1	class 2	class 4	Total
	40%	35%	20%	
	shs'000'	shs'000'	shs'000'	
TWDV 1 Jan 2018	15,400	68,650	256,000	340,050
Additions				
CCTV Camera	3,000			3,000
3 desktop computers	9,000			9,000
Boardroom table			2,500	2,500
Pickup truck (3 Tons)		45,000		45,000
	27,400	113,650	258,500	399,550
Disposals				
Computers	(10,000)			(10,000)
Lorry		(20,200)		(20,200)
	17,400	93,450	258,500	369,350
Depreciation allowance	(6,960)	(32,708)	(51,700)	(91,368)
TWDV 31 Dec 2018	10,440	60,743	206,800	277,983

a) (ii) Penalties and interest due

Penalty for under provision	Shs '000'
Tax payable	665,836
90% of tax payable (665,836*90%)	599,252
Tax estimated on provisional (1,500,000 *30%)	(450,000)
Difference	149,252
Penalty (20% * 149,252)	29,850
Penalty for late filing of the return	
Due date for filing 30 June 2019	
Filed 31 July 2019 - 1 month late	
Penalty is 2% of tax payable before any credit allowed or 10 currency points per month whichever is greater	
2% * 665,836	13,317
or 10 currency points	200
interest on late payment	
This is 2% per month	
Late by one month	
Balance of tax payable	215,836
Interest payable (215,836* 2%)	4,317

- (b) (i) Circumstances when the Commissioner may make additional assessments
- anytime, if fraud or gross or willful neglect has been committed by or on behalf of the taxpayer, or
 - new information has been discovered in relation to the tax payable for a tax period
 - in other cases, within three years from the date of service of the notice of additional assessment, or
 - within three years after the date the taxpayer furnished the self assessment return to which the original return relates

(b) (ii) objection process

- a person who is dissatisfied with a tax decision may lodge an objection to the commissioner within 45 days after receiving the notice of the tax decision. In this case, BUL received the additional assessment on 31 January 2019, therefore they should have objected to the assessment by 18 March 2019. (Note that the days include weekends)
- the objection should be on prescribed form (currently done online)
- it should state the grounds of objection upon which it is made (in this unreasonable estimation of sales)
- it should contain sufficient evidence to support the objection.
- the Commissioner is expected to serve notice of objection decision within 90 days from the date of receipt of the objection
- where objection decision has not been served within the 90 days, the person objecting may by notice in writing to the Commissioner, elect to treat the commissioner as having made a decision to allow the objection.
- the limit for making an objection decision is waived where a review of the taxpayer's records is necessary for settlement of the objection and the taxpayer is notified
- a person dissatisfied with the objection decision may within 30 days, after being served the notice of objection decision lodge an application with the Tax Appeals Tribunal (TAT) for review of the objection decision
- if the taxpayer is dissatisfied with the decision of TAT, he/she can appeal to the High Court within 30 days of receiving the decision.

Information required supporting the shareholder's loan

- Evidence of money being received by the company in the form of either receipts if money was received in cash or bank statements indicating that money was received
- If the loan was through the supply of goods, evidence to show that the goods were received

Please note that the best evidence and good practice it to have loan agreements and the above would only be to support the loan. But URA has already indicated that there were no loan agreements.

- (c) Conditions for exemption of income derived from agro processing
Section 21(1) (z)

The income of a person for a year of income derived from agro processing is exempted from tax where

1. the person or an associate of the person has not previously carried on agro processing of a similar or related agricultural product in Uganda
2. upon commencement of agro processing in Uganda, the person applies in writing to the Commissioner for a certificate of exemption which the Commissioner may issue within 60 days of receiving the application
3. the person invests in plant and machinery that has not previously been used in Uganda by any person in agro processing to process agricultural products for final consumption
4. the person processes agricultural products grown or produced in Uganda
5. the person regularly files returns under the Income Tax Act (eg PAYE, WHT and Income Tax)
6. the person regularly fulfils all obligations under the Income Tax Act relating to that person's investment
7. the person has been issued with a certificate of exemption for that year of income by the Commissioner

Question 2

(a) evaluation of the two options

Option 1

This option will lead to the payment of capital gains tax calculated as below

Cost base of the land	Shs
Cost	100,000,000
Add construction of access road	200,000,000
Total cost base	300,000,000
Capital gain computation	
Disposal proceeds	1,000,000,000
Less cost base	(300,000,000)
Gain on disposal	700,000,000
Tax on the capital gain (30%)	210,000,000

Option 2

This option will not lead to any capital gain because of the effect of Roll-over relief

This is because;

where a resident company transfers a business asset to another resident company, in exchange for a share in the transferee and the transferor has a 50% or greater interest in the voting power of the transferee immediately after the transfer,

- the transfer is not treated as a disposal but as an acquisition by the transferor of the business asset
- the transferee's cost base for the asset is equal to the transferor's cost base at the time of the transfer
- the cost base of the share received by the transferor in exchange for the asset is equal to the cost base of the asset transferred.
- The cost base of the land transferred was Shs. 300,000,000 which was equivalent to the value of the shares acquired
- This ensured that the transferor was getting voting powers in the transferee of 60% ($300,000/500,000 \times 100$)
- Therefore no disposal has taken place

Decision

The company should take option 2 which is the most tax efficient decision

(Please note that the question did not require evaluation of other considerations. In real decision making, there may be other considerations that would make a company abandon the tax efficient decision)

(b) Dividend stripping

Dividend stripping includes an arrangement under which;

1. A company, referred to as "target company", has accumulated or current year profits, or both, represented by cash or other readily realizable assets
2. Another company, referred to as "acquiring company", acquires the shares in the target company for an amount that reflects the profits of the target company
3. The disposal of the shares in the target company gives rise to a tax free capital gain to the shareholders of the target company
4. After the acquiring company has acquired the shares in the target company, the target company pays a dividend to the acquiring company, which in the absence of Section 74(3)(b) would be exempt from tax in the hands of the target company, and
5. After the dividend is declared, the acquiring company sells the shares for a loss

(c) Section 52 – Cost base of an asset

- The cost base of an asset purchased, produced or constructed by the taxpayer is the amount paid or incurred by the taxpayer in respect of the asset , including incidental expenditures of a capital nature incurred in acquiring the asset
- It includes the market value at the date of acquisition of any consideration in kind given for the asset
- The cost base acquired in a non-arm's length transaction is the market value of the asset at the time of acquisition
- The cost base of an asset acquired is the amount of the consideration deemed to have been received by the person disposing of the asset
- Where a part of the asset is disposed of , the cost base of the asset shall be apportioned between the part of the asset retained and the part disposed of in accordance with their respective market values at the time of acquisition of the asset
- Expenditures incurred to alter or improve an asset which have not been allowed as a deduction are added to the cost base of the asset
- Where the acquisition of an asset by a taxpayer represents the derivation of an amount included in gross income, the cost base of the asset is the amount included in gross income plus any amount paid by the taxpayer for the asset
- Where the receipt of an asset represents the derivation of an amount which is exempt from tax, the cost base of the asset is the amount exempt from tax plus any amount paid by the taxpayer for the asset

Question 3

(a) Mr. Muggaga Chargeable employment income

		Shs
Salary	10,000,000 *12	120,000,000
Tuition for son		4,000,000
Spouse allowance	500,000*2	1,000,000
Gratuity	120,000,000 *25%	30,000,000
Bonus		10,000,000
Club membership		2,000,000
Medical insurance	Exempt	-
Loan interest	72,000,000*11%	7,920,000
Car benefit	see working 1	10,985,000
Housing benefit	see working 2	41,025,750
Chargeable employment income		226,930,750

Working 1 - car benefit	
Market value at 1 July 2015	200,000,000
Notional depreciation	(70,000,000)
Depreciated value at 1 July 2016	130,000,000
Notional depreciation	(45,500,000)
Depreciated value at 1 July 2017	84,500,000
Notional depreciation	(29,575,000)
Depreciated value at 1 July 2018	54,925,000
Benefit $(20\% * A * B/C) - D = (20\% * 54,925,000 * 365/365) - 0$	10,985,000

(The above treatment is the URA Interpretation and has been confirmed in private ruling to some taxpayers)

Working 2 - housing benefit	
Total earnings and benefits (without rent)	185,905,000
Rent paid $(2,000 * 3,650) * 12$	87,600,000
Total chargeable income including rent	273,505,000
$15\% * 273,505,000$	41,025,750
The lesser amount is the rent paid which is taken as the benefit	

Chargeable business income

	Shs
Net profit	31,780,000
Add back	
Depreciation	5,000,000
Home upkeep	66,000,000
Telephone expenses	330,000
Construction of commercial property	20,000,000
Less	
interest on fixed deposit	(10,000,000)
Capital allowances (working)	(1,300,000)
Chargeable business income	111,810,000

Capital allowances

	Class 4
	20%
TWDV at 1 July 2018	6,500,000
Depreciation	(1,300,000)
TWDV at 30 June 2019	5,200,000

Tax payable

Chargeable employment income	226,930,750
Chargeable business income	111,810,000
Total chargeable income	338,740,750
Tax payable	
300,000 + (338,740,750 - 4,920,000)* 30%	100,446,225
(338,740,750 - 120,000,000) *10%	21,874,075
Total tax payable	122,320,300

(b) Obligations of the employer

- an employer has an obligation to withhold tax from a payment of employment income to an employee. This obligation is carried out notwithstanding any other law which provides that the employment income of an employee shall not be reduced or subject to attachment.
- the right to withhold is not reduced or extinguished because the employer has a right to deduct and withhold any other amount from such payments

Circumstances when a taxpayer may not file a return of income

- where the taxpayer is a non resident whose income is solely employment income or income whose tax has been deducted at source (eg dividend, interest, natural resource payment, royalty etc)
- where the taxpayer is resident and income is earned solely from one employer
- Business person whose income is below the taxable threshold.

Solution 4

(a) TUL VAT Computation for the month of January 2019

Sales /Output tax

	Comment	amount USD	Exchan ge rate	amount UShs	VAT (inclusiv e) *18/118
100 bales of second hand clothing	100 * 2,000,000	0	1	200,000,000	30,508,475
30 Tons of ladies' handbags	30*15,000,000	0	1	450,000,000	68,644,068
200 Bales of second hand clothing to South Sudan	200*800 (Zero rated)	160,000	3,773	603,680,000	-
50 Tons of ladies' handbags	50*3,800 (Zero rated)	190,000	3,773	716,870,000	-
				OUTPUT TAX	99,152,542

Purchases/ input VAT

	Comment	amount USD	Exch rate	amount UShs	VAT (exclusive 18/100)
Import of 500 bales of second hand clothing	500*580=290,000				
Import duty	25% *290,000 =72,500				
Value for VAT	290,000 +72,500	362,500	3,773	1,367,712,500	246,188,670
Import of 100 Tons of ladies' bags	100*2,000=200,000				
Import duty	25% *200,000 = 50,000				
Value for VAT	200,000 +50,000	250,000	3,773	943,250,000	169,785,000

	Comment	amount USD	Exch rate	amount UShs	VAT (exclusive 18/100)
Rent				25,000,000	4,500,000
Salaries and wages	Out of scope			52,500,000	-
Transport from Mombasa	Out of scope	26,500	3,773	99,984,500	-
Telephone	Only 90% claimable			3,600,000	583,200
Hotel accommodation abroad	Out of scope	10,500	3,773	39,616,500	-
Air tickets	Zero rated	4,500	3,773	16,978,500	-
				Input Tax	421,056,450

VAT Claimable (Output - Input)

output	99,152,542
input	421,056,450
VAT refund due	(321,903,908)

- (b) (i) documents they are required to have to prove that the goods have been exported
- In order for an export transaction to qualify for zero rating, a registered tax payer shall obtain and be able to show as proof of export for every export transaction the following
- A copy of the bill of entry or export certified by the customs authorities
 - A copy of the invoice issued to the foreign purchaser with tax shown at Zero rate
 - Evidence to satisfy the Commissioner General that the goods have been exported, in the form of an order form, or signed contract with, a foreign purchaser, or transport documentation which identify the goods such as;
 - Transit order or consignment note (rail)
 - Copy of bill of lading (water)
 - Airway bill (air)
 - Transport document /ticket for goods transported by road
 - The goods must be removed from Uganda within 30 days of delivery to the port of exit

(ii) Offenses and penalties

- Where a TUL indicated in the VAT return that goods were exported whereas not, then the officer of the company who has filed the return with URA will have committed an offense of making false or misleading statements to URA
- Where a person makes a statement that is false or omits from a statement a matter without which the statement is misleading, and the tax properly payable by the person exceeds the tax that was assessed as payable based on the misleading statement or omission, that person is liable to a penal tax equal to double the amount of the excess
- A person who knowingly or recklessly makes a statement to a tax officer that is false or misleading or omits from a statement made to a tax officer any matter without which the statement is false or misleading, commits an offense and is liable on conviction to a fine not exceeding 48 currency points (Shs.960,000) or to imprisonment not exceeding two years or both.

Computation of penalty

Exports per VAT return	603,680,000
Export sales verified (ASYCUDA)	301,040,000
Variance (treated as sales made in country on which VAT should be charged at the standard rate)	302,640,000
Additional VAT (Sales are inclusive when amount is not mentioned at the time of sale)	46,165,424
Penalty payable (Double the tax)	92,330,847

Question 5

- (a) Source jurisdiction involves taxing income arising or earned in a country. A source country can only tax income arising or earned in that country. For example non – residents earning income from Uganda will have the income taxed in Uganda and this will usually be through the withholding mechanism which requires the persons paying the non -resident to withhold the tax.

Residence jurisdiction gives rights to taxing the income of residents irrespective of where it is earned (all geographic sources). A residence country has the primary right to tax the income /gains of its residents (usually not restricted to tax). However, there are usually ways to grant tax reliefs on income sourced abroad if that income has been taxed abroad

According to Section 83, tax is imposed on every non-resident who derives any rent from sources in Uganda.

- (b) The tax payable by the non- resident is calculated by applying the rate of 15% to the gross amount of the rent derived by the non-resident person

Tax payable on rent income earned

Year of income July 2016 - June 2017

Gross rental income earned	USD	Ex rate	UGX
Jan - June 2017	80,000	3,500	280,000,000
WHT payable (15%)			42,000,000

Year of income July 2017 - June 2018

Gross rental income earned	USD	Exch rate	UGX
Jul - Dec 2017	150,000	3,500	525,000,000
Jan - Jun 2018	160,000	3,600	576,000,000
			1,101,000,000
WHT payable (15%)			165,150,000

The WHT will be withheld by Wiseworld and Partners before they transfer the balance of the money to Mr Trumpet's account. The expenses incurred are of no consequence to non residents.

Disposal of an interest in immoveable property located in Uganda is income sourced in Uganda and therefore any gain from such is taxable.

Cost base at the time of sale	Shs
Cost of Building	3,500,000,000
IBA year ended June 2017 (5% *181/365*3,500,000,000)	(86,780,822)
	3,413,219,178
IBA year ended June 2018 (5% *365/365*3500,000,000)	(175,000,000)
Cost base at the time of sale	3,238,219,178

Tax on sale of building	USD	Ex rate	UGX
Sales proceeds	1,200,000	3,600	4,320,000,000
WHT Payable (10%)			432,000,000

The withheld tax is payable by Mr. Byangire (Section 118B)

Tax payable on dividends earned

No of shares	500,000
Payment per share	1,000
Total dividends paid	500,000,000
Mr Trumpet percentage share = $420,000/500,000 \times 100$	0.84
Dividends received	420,000,000
WHT Payable (15%)	63,000,000

(c) Importance of DTA's

- They offer guidelines under which certain types of income arise and allocate the right to tax the income between the contracting states in addition to elimination relief
- Assist in harmonization of tax laws and international cooperation with the specific DTA countries
- Reduces conflicts between tax authorities as DTA's specify the country with taxing rights
- Assists to provide guidance on the appropriate tax base for certain types of income

ANSWERS TO TEST PAPER 7

CPA (U) NOVEMBER 2019

Solution 1

- (a)
- (i) TML Computation of chargeable income and tax payable / refundable for the year ended 31 December 2018

	Shs '000'	Shs '000'
Profit before tax		1,565,125
Add back		
Depreciation and amortisation	780,200	
General impairment provision	98,760	
Provision for gratuity	385,000	
School fees for staff children	235,900	
Funeral expenses	45,800	
End of year party	115,800	
Unrealised foreign exchange losses	375,800	
Withholding tax paid	300,500	
Entertainment expenses	79,650	
Stamp duty	23,000	
Provision for unexpected losses	220,000	
Installation of core banking software	1,000,000	
Penalties to Bank of Uganda	18,620	
Balancing charge on sale of bullion van	184,090	
		3,863,120
Less		
Interest on treasury bills	3,168,000	
Unrealised gain on foreign exchange trading	353,877	
Profit on disposal of equipment	92,600	
Initial allowance	543,750	
Depreciation allowance	276,992	
Minor capital allowance	20,000	
		(4,455,219)
Chargeable income		973,027
TAX (30%)		291,908
Less provisional tax		(100,000)
Less WHT paid		(300,500)
Tax refundable		(108,592)

(ii) Working 1 Capital allowances

	Initial allowance	Class I	Class II	Class III	Class IV	Total
	50%	40%	35%	30%	20%	
	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'
TWDV 1 /01/18		15,600	18,250	28,510	129,320	191,680
Additions						
Software installation	500,000	500,000				500,000
Desktop computers	43,750	43,750				43,750
Mercedes Benz			60,000			60,000
	543,750	559,350	78,250	128,510	129,320	795,430
Disposals						
Bullion Van				(212,600)		(212,600)
	543,750	559,350	78,250	-	129,320	766,992
Depreciation		(223,740)	(27,388)	-	(25,864)	(276,992)
TWDV 31/12/2018		335,610	50,863	-	103,456	489,928
Balancing charge to add back				184,090		
Non qualifying motor vehicle Shs 140,000,000						

(b) Tax implications of making charitable donations

According to Section 34 of the Income Tax Act, a person is allowed a deduction for a gift made to an organisation which is

- An amateur sporting organisation, or
- A religious, charitable or educational institution of a public character
The value of the gift should be the lesser of
- The value of the property at the time of making the gift ; or
- The consideration paid by the person for the property.
- The amount of the deduction allowed shall not exceed 5% of the persons chargeable income, calculated before taking into account the deduction made
- Therefore the payment of donations to individuals will not be an allowable deduction for tax purposes and the company will have to pay additional tax of 30% on the amount.
- In order for the company to benefit from the deduction, arrangements should be made to make the donations to public schools where the target individuals will benefit from.

c) (i) Advice

The management of TML should not agree to the proposal because if they do, they will have committed an offense.

Section 63 of the TPCA

- A person who directly or indirectly offers or gives a tax officer any payment or reward, whether pecuniary or otherwise, or any promise or security for any such payment or reward, not being a payment or reward which the officer is lawfully entitled; or.
- Proposes or enters into an agreement with a tax officer in order to induce the officer to do any act or thing, abstain from doing any act or thing, connive at the doing of any act or thing, or concealing any act or thing by which tax revenue is or may be defrauded or which is contrary to the provisions of the law or to the proper execution of the officers duty, commits an offense and is liable to a fine not exceeding 48 currency points (Shs 960,000), or imprisonment not exceeding two years or both.
- Any officer of the company who agrees to the proposal by a tax officer may be convicted as above, once the information is known
- A person who deliberately fails to maintain proper records as required under the tax law is liable to pay a penal tax equal to double the amount of tax payable by the person for the period to which the failure relates

Importance of acting with integrity

- It increases the reputation of the entity. The higher the reputation, the more business it draws and the more successful it becomes
- Integrity builds trust. At the most basic level, all business relationships are built on trust. Strong customer and employee relationships increase the company's productivity and profitability
- The entity will avoid penalties, fines, investigations and even imprisonment of its directors or owners
- Tax compliant businesses can easily win business from entities that require their suppliers to be tax compliant
- It makes it easy to get tax benefits from URA like WHT exemption and tax clearance certificates
- Audits will be easy to conclude which saves time and eliminates stress
- Reduces tax litigation and saves on related legal fees

Meaning of tax evasion

Tax evasion is the illegal non-payment or underpayment of taxes, usually resulting from making a false declaration or no declaration at all, of all taxes due to the relevant tax authorities.

Consequences of tax evasion

Section 58 TPCA – a person who knowingly or recklessly

- makes a statement to a tax officer that is false or misleading in a material manner

- Omits from a statement made to a tax officer any matter or thing without which the statement is false or misleading in a material manner
- Commits an offense and is liable on conviction to a fine not exceeding 48 currency pints (Shs 960,000) or to imprisonment not exceeding two years or both.
- a person who knowingly or recklessly does not maintain proper records as required under the tax law commits an offense and is liable on conviction to a fine not exceeding 48 currency pints (Shs 960,000) or to imprisonment not exceeding two years or both.
- A person who deliberately fails to maintain proper records as required under the tax law is liable to pay a penal tax equal to double the amount of tax payable by the person for the period to which the failure relates.

Other general consequences of tax evasion

- Loss of reputation
- Loss of Government revenue
- Withdrawal of license by the regulatory authority in this case bank of Uganda
- Unfair competition
- Loss on tax payer benefits that accrue to tax compliant taxpayers

Solution 2

(a) Computation of partnership distributable profits

	Shs '000'
Net profit	46,800
Add back	
Partners' salaries (working 1)	288,000
Interest on capital (working 2)	60,000
Depreciation	279,000
	673,800
Less	
Capital allowances (working 3)	(83,688)
Partnership chargeable Income	590,112
Less	
Partners' salaries	(288,000)
Interest on capital	(60,000)
Partnership distributable profit	242,112

Working 1 -Partners salaries			
	Shs '000'		Shs '000'
Kasubi	10,000	x12	120,000
Kagolo	8,000	x12	96,000
Kalungi	6,000	x12	72,000
Total			288,000

Working 2 -Interest on capital			
	Shs '000'		Shs '000'
Kasubi	100,000	x0.10	10,000
Kagolo	200,000	x0.10	20,000
Kalungi	300,000	x0.10	30,000
Total			60,000

Working 3 - Capital allowances				
	shs '000'	shs '000'	shs '000'	shs '000'
	class I	Class II	Class IV	Total
	40%	35%	20%	
TWDV 1/1/2018	26,325	108,280	176,300	310,905
additions	-	-	-	-
	26,325	108,280	176,300	310,905
disposals	-	-	-	-
	26,325	108,280	176,300	310,905
Depreciation	10,530	37,898	35,260	83,688
TWDV 31 /12/ 2018	15,795	70,382	141,040	227,217

(b) Tax liability for each partner

	Shs '000'	Shs '000'	Shs '000'	Total
	Kasubi	Kagolo	Kalungi	
Share of profit	121,056	80,704	40,352	242,112
Salaries	120,000	96,000	72,000	288,000
Interest on capital	10,000	20,000	30,000	60,000
	251,056	197,704	142,352	590,112
Tax payable	(251,056-4,920)*30%+300=74,141	(197,704-4,920)*30%+300=58,135	(142,352-4,920)*30%+300=41,530	
	(251,056-120,000)*10%=13,106	(197,704-120,000)*10%=7,770	(142,352-120,000)*10%=2,235	
	87,247	65,905	43,765	

c) Principles of taxation of partnerships

1. The presence or absence of a written partnership agreement is not decisive in determining whether a partnership relationship exists between persons
2. A partnership shall be liable to furnish a partnership return of income , but shall not be liable to pay tax on that income

3. Any election, notice, or statement required to be filed in relation to a partnership's activities shall be filed by the partnership
4. Partnership assets are treated as owned by the partnership and not the partners (unless the context otherwise requires)
5. There is no carry forward of loss since all the losses are shared by the partners in their profit sharing ratios

Solution 3

(a) (i) Computation of VAT payable/claimable

Input VAT

Imports						
Date	Item	Cost USD	Exchange rate	Cost UGX	VAT (18/118)	Comment
2	New clothing	29,000	3,650	105,850,000	16,146,610	Standard
5	Wheat flour	26,000	3,650	94,900,000	14,476,271	Standard
12	Animal feeds and premixes	12,500	3,650	45,625,000	-	Exempt
12	Drugs and medicines	14,600	3,650	53,290,000	-	Exempt
19	Mobile phone sets	27,500	3,650	100,375,000	15,311,441	Standard
25	Cooking oil	22,000	3,650	80,300,000	12,249,153	Standard
Purchased service						
3	Rent			10,000,000	1,525,424	Standard
8	Electricity			1,500,000	228,814	Standard
10	Telephone			2,000,000	274,576	only 90% claimable
30	Cleaning			1,000,000	152,542	Standard
30	Security			600,000	91,525	Standard
	TOTAL INPUT				60,456,356	

Output VAT

Date	Item	Amount	Discount (5%)	Net amount	VAT (18%)	Comment
1	Sugar to Massa of Ibanda	80,000,000	(4,000,000)	76,000,000	13,680,000	Standard
6	Animal feeds	13,000,000	-	13,000,000	-	Exempt
8	Clothing	29,000,000	-	29,000,000	5,220,000	Standard
12	Wheat flour	100,000,000	(5,000,000)	95,000,000	17,100,000	Standard
14	Phone handsets	26,000,000	-	26,000,000	4,680,000	Standard
18	Drugs and medicines	18,000,000	-	18,000,000	0	Exempt
	Total output	266,000,000		257,000,000	40,680,000	

Proportion of taxable sales		
Taxable sales	226,000,000	B
Total sales	257,000,000	C
B/C	87.9%	
Claimable input is 87.9%		

VAT Payable/ Claimable	
Output VAT	40,680,000
Input VAT	53,163,955
VAT Claimable	(12,483,955)

(a)(ii) Advice to Rodrich Supermarket Ltd on the claim of the bad debt

In order to claim a VAT refund for bad debts,

The person must have supplied the goods for consideration in money and paid the full tax in the period of supply but has not received payment for all or part of the supply within two years after the supply was made

- The person must have taken all reasonable steps to satisfy the Commissioner to pursue payment and he or she reasonably believes that he or she will not be paid
- In this case the debt is not yet outstanding for two years and there is no indication that all reasonable steps have been taken and failed. Although the main debtor is dead, payment can still be pursued through the administrators of the estate.
- Therefore the refund claim made in the September return will not be honoured by URA.

(b) Conditions for de-registration

- A person can apply for deregistration if that person has ceased to make supplies of goods or services for consideration as part of the business activities of the person, or
- If, with respect to the to the most recent period of three calendar months, the taxable value of his taxable supplies, exclusive of tax does not exceed $\frac{1}{4}$ of the annual registration threshold (Shs 37,500,000) and if the value of his taxable supplies exclusive of tax for the previous 12 calendar months does not exceed 75% of the annual registration threshold (Shs 112,500,000)
- The Commissioner has the prerogative of granting or not granting the deregistration
- The commissioner shall serve a notice in writing of the decision taken within fourteen days of making the decision
- A taxable person whose registration has been cancelled is liable for output VAT on all goods on hand at the time of deregistration in respect of which he/she has claimed input VAT
- The Commissioner will not agree to deregister because he has not ceased to deal in taxable supplies and he he is also still above the threshold.

Solution 4

(a) Computation of Makatu Uganda Limited's chargeable income and tax payable

Item	Amount Shs '000'	Comments
Determination of Net profit		
Incomes	34,700,000	
Less Expenses	(2,325,800)	
Net profit	32,374,200	
Add back		
Expenses related to treasury bills	200,000	
Security - apartments	4,800	
Painting and repairs	35,000	
	32,614,000	
Less		
Interest on treasury bills	(20,000,000)	WHT Tax is final tax
Dividend received from Makura Ltd	(3,000,000)	Income is exempt from tax (section 74) Makatu controls more than 25% of the voting power of Makura
Rental income	(1,500,000)	Taxed separately
Chargeable income	8,114,000	
Tax payable (30%)	2,434,200	
Less		
WHT on interest from Global Bank Mauritius	(300,000)	DTA rate 10% (3,000,000 * 10%)
WHT on Dividend from Trading UK Ltd	(435,000)	DTA rate 15% (2,900,000 * 15%)
WHT on interest on fixed deposit account	(375,000)	WHT rate is 15% (2,500,000 * 15%)
WHT on dividend from Biashara Uganda Limited	(270,000)	WHT rate is 15% (1,800,000 * 15%)
Balance of tax payable	1,054,200	
		Total

Rental income tax

	Shs '000'
Rental income	1,500,000
Less expenses	
Security	(4,800)
Painting and repairs	(35,000)
Chargeable income	1,460,200
Tax (30%)	438,060
	Total

Total tax outstanding Shs 438,060,000 + 1,054,200,000 = 1,492,260,000.

- (b) The transaction will be taxable because any distribution made to shareholders in the course of a liquidation is treated as payment of dividend

Definition of a dividend; Dividend includes;

- where a company issues debentures or redeemable preference shares to a shareholder, in respect of which the shareholder gave no consideration, an amount equal to the greater of the nominal or redeemable value of the debentures or shares
- where a company issues debentures or redeemable preference shares to a shareholder, in respect of which the shareholder gave consideration which is less than the greater of the nominal or redeemable value, an amount equal to the excess
- any distribution upon redemption or cancellation of a share, or made in the course of liquidation, in excess of the nominal value of the share redeemed, cancelled, or subject to liquidation
- in case of a partial return of capital, any payment made in excess of the amount by which the nominal value of the shares was reduced
- in the case of a reconstruction of a company, any payment made in respect of the shares in the company in excess of the nominal value of the shares before the reconstruction
- the amount of any loan, the amount of any payment for an asset or services, the value of any asset or services provided, or the amount of any debt obligation released, by a company to, or in favour of, a shareholder of the company or an associate of a shareholder to the extent to which the transaction is, in substance, a distribution of profits, but does not include a distribution made by a building society
- the issue of bonus shares to shareholders. However, bonus shares shall only be taxable upon disposal

Solution 5

(a) (i)

Determination of Customs Value (CIF)				
	USD/KSh	EX Rate	UGX	Comment
Commercial invoice	30,000	3,680	110,400,000	
Shipping to Mombasa	2,500	3,680	9,200,000	
Insurance on board	600	3,680	2,208,000	
Transport from Mombasa	100,000	28	-	not part of customs value
Storage at Rotterdam	400	3,680	1,472,000	
Storage at Mombasa	10,000	28	-	not part of customs value
Customs value			123,280,000	

Determination of taxes payable		
		Shs
Import duty (Customs Value * 50% - Sensitive Item)	123,280,000*50%	61,640,000
VAT (Customs Value + Import Duty *18%)	(123,280,000+61,640,000)*18%	33,285,600
WHT (Customs Value *6%)	123,280,000*6%	7,396,800
Taxes payable		102,322,400

(a) (ii) Consequences of concealing goods or being in possession of uncustomed goods

A person who conceals any goods commits an offence and shall be liable on conviction to 5 years or a fine equal to 50% of the dutiable value or both.

In addition to paying the fine, the duty due on the goods is also payable

Fine payable USD 1,500 * 3,680 * 50% = 2,760,000

Taxes payable

Import duty USD 1,500 * 3,680 = 5,520,000 * 50% = 2,760,000.

VAT 5,520,000+ 2,760,000 *18% = 1,490,400.

WHT 5,520,000 *6% = 331,200.

Immediate benefits of being an AEO

- pre arrival clearance of cargo
- electronic submission of documents for cargo clearance
- priority treatment at all times while dealing with customs
- choice of place of physical examination in case there is need to perform physical examination on cargo
- automatic renewal of licenses once all the necessary fees are paid
- self management of bonded warehouses for bonded warehouse operations
- withholding tax exemption status

Long term benefits

- reduction in the cost of doing business
- enhanced reputation and image
- increased turnover
- improved quality of service
- trustworthy and compliant business
- improved internal control systems.

ANSWERS TO TEST PAPER 8

CPA (U) DECEMBER 2020

Solution 1

(a)

- (i) Computation of PTUL's chargeable income and tax payable for the year ended 30 June, 2019

	Shs '000'	Shs '000'
Profit before Tax		1,921,950
Add back		
Construction of new roofed parking area in Kampala	1,456,900	
Cost of replacing container	50,000	
Management fees (Duplicated service)	500,000	
Interim dividends paid	300,000	
Provision for doubtful debts	1,378,000	
Depreciation of property	3,212,476	
End of year staff party	156,000	
Traffic offences express penalties	159,000	
Weigh bridge load violation penalty paid to UNRA	135,000	
Purchase of land in Mbarara	200,000	
Contribution to Area member of Parliament campaigns	100,000	
Penalty for late filing of VAT returns	153,500	
Donation to Jinja Municipality for organizing National independence celebrations	100,000	
Loss on disposal of equipment	252,170	
Interest on loan to buy land	30,000	
		8,183,046
Deduct:		
Interest earned on treasury bills	1,400,000	
Gain on sale of fixed assets	100,000	
Capital allowances	1,121,813	
Initial allowance	66,000	
Industrial building allowance	19,662	
		(2,707,475)
Chargeable income		7,397,521
Tax at 30%		2,219,256
Less provisional tax paid		(500,000)
Balance of tax payable		1,719,256

Working 1- Capital allowances

	Cost	IA	Class 1	Class 2	Class 3	Class 4	Total
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
		50%	40%	35%	30%	20%	
TWDV 1 /07/2018			129,600	327,650	1,350,250	87,750	1,895,250
Additions							
Trailer mounted container replacement	50,000	-			50,000		50,000
Ten Ton Trucks	400,000	-			400,000		400,000
Trailers	1,620,000	-			1,620,000		1,620,000
Computers	32,000	16,000	16,000				16,000
Benz	250,000	-		60,000			60,000
Three Ton pick -up trucks	200,000	-		200,000			200,000
Fixtures and fittings	282,100	-				282,100	282,100
Equipment	100,000	50,000				50,000	50,000
		66,000	145,600	587,650	3,420,250	419,850	4,573,350
Disposals							
Trailers					(750,000)		(750,000)
Furniture						(135,750)	(135,750)
			145,600	587,650	2,670,250	284,100	3,687,600
Capital allowances			(58,240)	(205,678)	(801,075)	(56,820)	(1,121,813)
TWDV 30/06/19			87,360	381,973	1,869,175	227,280	2,565,788

The Mercedes Benz is restricted to only Shs 60,000,000

Working 2 – Industrial Building allowance

	Shs '000'
Cost	956,900
IBA = A*B*C/D	
5% *956,900 * 150/365	19,662

- (ii) Penalties payable
Understatement of provisional tax

	Shs '000'
Final Tax due	2,219,256
90% of final tax	1,997,331
Provisional tax paid	500,000

Difference	1,497,331
Penalty 20%	299,466

Late submission of return

Due date of filing return	31/12/2019
No of months late	4
Penalty	
2% before any credit allowed	
2%*2,219,256,000) or	44,385,126
10 currency points per month, whichever is higher	
20,000 *10*4 months	800,000
Penalty due is Shs 44,385,126	

(b)

(i) Income tax planning areas

Income tax planning areas within the Uganda Laws

- Capital deductions should be claimed in each year the assets are acquired
- The company has bought land with an intention of venturing into agriculture. The process should be completed and most likely engage in agro processing whose income will be exempt from tax
- Use of the double taxation relief treaty available between Uganda and South Africa
- Location of the business (outside the 50 km boundary from Kampala) to benefit from initial allowance
- When borrowing from a related party, consider amount of debt whose interest will be allowable (Earnings before interest, Depreciation and tax)
- Spend less on non-allowable deductions such as donations and donate only to those organizations that are exempt (Section 34)
- Ensure that the dealings with the parent company are at arm's length to avoid unnecessary scrutiny
- Consider buying double cabins for senior management instead of station wagons and saloon cars to benefit from capital allowances on total cost

(ii) Definition of Aggressive Tax Planning:

Aggressive tax planning is any tax planning within the framework of applicable tax law that artificially seeks to disconnect corporate tax base from those locations in which actual business is conducted to arrive at an outcome being subject to less than single taxation.

Examples

- Engineering of corporate activity to minimize tax costs and maximize after tax profits
- Setting up artificial transactions or series of transactions with a sole aim of avoiding taxation

- Legal shifting or sheltering of intangible and monetary assets to low or no taxing jurisdictions
- Intragroup debt financing and licensing arrangements. These generate in principle tax deductible interest and royalty payments in the jurisdiction where real investment takes place

Ethical and legal concerns of aggressive tax planning:

- Aggressive tax planning leads to loss of revenue because the line between avoidance and evasion becomes blurred.
- Where transactions engaged into may be interpreted by the URA as contrary to the law, a practitioner should explain all the understanding of the grey areas so that they engage in the transaction with the understanding of the contrary interpretation by the tax authority
- Notify the client of penalties that may be applicable as well as the possibility of court action

Solution 2

(a) Mr Kabiito – Chargeable employment income

Item	Monthly	Annual		Comment
Salary	5,000,000	x12=60,000,000	60,000,000	Taxable
Housing allowance	1,000,000	x12=12,000,000	12,000,000	Taxable
Motor vehicle benefit (working 1)	845,000	x12=10,140,000	10,140,000	Taxable
Subsistence Allowance	500,000 *4 = 2,000,000	x 12 =24,000,000	-	Not taxable Subsistence
Lunch allowance	400,000	x 12=4,800,000	4,800,000	Taxable
Medical allowance	200,000	x 12 =2,400,000	2,400,000	Taxable
Interest benefit (working 2)	220,000	x12=2640000	2,640,000	Taxable
Chargeable income			91,980,000	
WHT on property income and tax on small business income are final tax and therefore tax is computed on employment income alone				
Tax payable				
300,000+30%(91,980,000-4920,000)			26,418,000	
Working 1- M/V Benefit				
(20%xAxB/C)-D				
	1/7/2016	1/7/2017		

A- market value depreciated on a reducing balance basis at a rate of 35% per annum for subsequent years	120,000,000	120,000,000 x 65%
		78,000,000
B-Number of days in the year in which M/V was used for private purposes	365	
C- number of days in year of income	365	
D- any payment made	0	
(20%*50,700,000*365/365)-0		

Working 2- Interest benefit			
	loan	interest	benefit
Value of benefit is difference between the interest paid and interest which would have been paid if the loan had been made at the statutory rate	24,000,000	11%	2,640,000

Property income	Amount	rate of tax	Tax	
Interest	14,000,000	15%	2,100,000	WHT is final tax
Dividend	1,650,000	10%	165,000	WHT is final tax

Small business Tax	
Section (5) where the gross turnover of a business is less than 150 million shillings, the income tax payable is determined according to the second schedule	
The tax payable shall be final tax	
No deduction shall be allowed for expenditures and losses incurred	
Turnover	148,590,000
Tax payable	2,062,500 or 1.5% of turnover whichever is lower
1.5%=	2,228,850.0
Tax payable is Shs 2,062,500	

(b) Objection process (Section 24 TPCA)

- A person dissatisfied with a tax decision (estimated assessment) may lodge an objection with the Commissioner within 45 days after receiving notice (by 5 March 2020).
- Objection must be in a prescribed form (currently done online on the URA portal).
- It shall state the grounds of objection (in this case the assessment is excessive).
- The Commissioner may consider the objection if the return has been filed (the process of objection involves the taxpayer filing a return of what he thinks is the actual income) and has paid tax due, if any.
- Taxpayer is allowed to apply for extension to object beyond the 45 days by stating acceptable grounds. However, the prerogative of how many days may be granted remains with the Commissioner
- The Commissioner may make a decision by affirming, reducing, increasing or otherwise vary the assessment, or tax decision.
- The Commissioner shall serve the notice of objection decision within 90 days from the date of receipt of the objection.
- Where an objection decision has not been served within the time specified, the taxpayer, by notice in writing, can elect to treat the Commissioner as having made a decision to allow the objection.
- The time limit for making an objection decision is waived where a review of the taxpayer records is necessary for settlement of the objection and the taxpayer is notified.
- A person dissatisfied with the objection decision may within 30 days of being served with a notice of objection decision appeal to the Tax Appeals Tribunal.
- The burden is on the taxpayer to prove that the assessment is incorrect, or that the decision should have been made differently.

Solution 3

(a) Computation of VAT Payable /claimable

Input VAT				
Item	Amount VAT Excl	VAT (18%)	Claimable	Comment
	Shs '000'	Shs '000'	Shs '000'	
Brown Sugar	2,500,000	450,000	450,000	standard
Reagents	4,750,000	855,000	855,000	standard
Motor vehicle – Bus for staff transportation	75,000	13,500	-	passenger vehicle not claimable
Factory spare-parts	370,900	66,762	66,762	standard
Packaging materials	560,000	100,800	100,800	standard

Expense (VAT Inclusive)		VAT(18/118)		
Telephone	23,000	3,508	3,158	Only 90% claimable
Security	15,000	2,288	2,288	
Health insurance for staff	56,300	-		Exempt
Rent	200,000	30,508	30,508	
Diesel and petrol supply	345,000	-		Exempt
Input VAT			1,508,516	

Output VAT					
	Amount Ex- factory	Excise Tax (13%)	Amount Exclusive VAT	VAT (18%)	Comment
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	
Sale of Chamuks to Real Distributors Kampala	960,000	124,800	1,084,800	195,264	Standard
Sale of Chamuks to Bamweyana wholesalers in Masaka	480,000	62,400	542,400	97,632	Standard
Sale of Chamuks to Gulu Highflier Distributors	520,000	67,600	587,600	105,768	Standard
Sale of Chamuks to Mbarara Tukore Distributors	475,000	61,750	536,750	96,615	Standard
Sale of old Lorry	50,000	-	50,000	9,000	Standard
Own use to staff	45,000	5,850	50,850	9,153	own use Standard
Sales returns (Inclusive) 18/118			(76,271)	(13,729)	Standard
Exports (VAT Zero)	Amount USD	Rate			
Paymoo Drinks South Sudan	100,000	3,700	370,000,000	0	Zero rate
Dongtho Happy Suppliers – DRC	60,000	3,700	222,000,000	0	Zero rate
Output VAT				499,703	

VAT Payable / Claimable	Shs '000'
Output VAT	499,703
Less input VAT	(1,508,516)
VAT claimable	(1,008,813)
Less claim for bad debt	(61,017)
(400,000 * 18/118)	
Total claimable	(1,069,830)

- (b) These are imported services and the tax implications are
- Section 4(c) VAT shall be charged on the supply of imported services, other than exempt supply, by any person
 - The person liable to pay tax in the case of a supply of imported services is the person receiving the supply
 - The taxable value will be the amount provided in the Invoice
 - Time of accounting is when the service is completed, when payment for the service is made or when the invoice is received, whichever is earliest
 - The VAT is declared as output VAT and there is no corresponding Input VAT to offset this amount (this is available only for business process outsourcing since 1 July 2016)

Solution 4

- (a)
- (i) Business asset is an asset which is used or held ready for use in a business and includes any asset owned by a partnership or a company. Business asset may include shares a company holds in other companies but not its own shares
- (ii) Tax implications – Capital gains

Cost base of the asset - arm's length	
	Shs
Cost of land	200,000,000
Transfer fees	1,500,000
Stamp duty	3,000,000
Search fees	10,000
Lawyer's consultation fees	2,500,000
Surveyor's fees	1,200,000
Construction of warehouse	90,000,000
Opening of drainage	20,000,000
Cost base	318,210,000
Sale proceeds (140,000 * 3650)	511,000,000
Capital gain	192,790,000
Tax (30%)	57,837,000

(b)

(i) Transitional provisions for capital gains

- Gains and losses on assets purchased before 31 March 1998
The cost base of an asset is subjected to indexation to cater for adverse effects of inflation. The formula applied is
 $CB \times CPID/CPIA$ where
 - ✓ CB is the amount the item cost or expense incurred when the item was bought prior to 31 March 1998.
 - ✓ CPID is the consumer price index published for month ending 31 March 1998.
 - ✓ CPIA is the consumer price index published for the month immediately prior to the month the relevant cost was incurred.
- Where a taxpayer is able to substantiate the market value of the asset on 31 March 1998, the value may be substituted for the cost base of the asset.
- For immovable property (Land) purchased before 31 March 1998, the cost base is equal to the value as determined by the Chief Government Valuer.

(ii) Capital gains tax computation.

	Shs
Historical cost	118,000,000
Cost base before indexation	118,000,000
indexation	
CPID	183.15
CPIA	152.76
Indexed Cost base	141,474,863
Proceeds	400,000,000
Capital gain	258,525,137
Tax (30%)	77,557,541

Solution 5

(a)

(i) Computation of customs value

	Amount USD
Cost as per commercial invoice	100,000
Royalty	20,000
Storage charges	1,800
Transport at sea	4,000
Marine insurance	1,900
Transport from Mombasa to Busia	-
Insurance and transport to Kampala	-
	127,700

Exchange rate	3,675
Customs Value	469,297,500

Computation of taxes payable

Customs Value (CIF)	469,297,500
Import duty (finished goods) $469,297,500 \times 25\%$	117,324,375
VAT (Customs value + import duty $\times 18\%$ $= (469,297,500 + 117,324,375) \times 0.18$	105,591,938
Infrastructure levy (CIF $\times 1.5\%$) $= 469,297,500 \times 1.5\%$	7,039,463
Withholding tax (CIF $\times 6\%$) $= 469,297,500 \times 6\%$	28,157,850
Total taxes	258,113,625

- (ii) Pornographic materials are prohibited goods and a person commits an offense when he /she;
- Imports or carries coastwise any prohibited goods, whether or not the goods are loaded
 - Unloads after importation any prohibited goods
 - Acquires or has in his possession, keeps or conceals any goods which he knows or ought reasonably to know to be prohibited goods
 - The person is liable on conviction to a fine
 - The prohibited goods are seized and forfeited
 - The package and contents of the goods shall also be forfeited. (the vehicle in which the prohibited goods are found is also seized and may be forfeited.
- (b) Benefits of single customs territory
- Seamless flow of goods thereby decongesting the port of Mombasa and border points
 - Reduction in the time lag spent during clearing of goods at Mombasa
 - Lower costs of doing business by way of centralizing clearance support
 - Shifting from physical controls to electronic clearance process which leads to efficiency
 - Minimizing non tariff barriers
 - Lower clearance costs
 - Improved coordination between agencies responsible for clearance of goods
 - Enhanced compliance through regional wide mechanisms
 - Realizing economies of scale and optimal use of resources in clearance of goods in the EAC

ANSWERS TO TEST PAPER 9

CPA (U) MARCH 2021

Solution 1

(a)

- (i) KUL's Computation of chargeable income and tax payable for the year ended 30 June, 2020.

	Shs '000'	Shs '000'
Profit before tax		2,484,320
Add back		
Expansion of Labour quarters	150,000	
Purchase of inputs from Makenke Traders	15,000	
Depreciation	1,978,000	
Provision for bad and doubtful debts	215,460	
Water and electricity at MD's home	22,500	
Tuition fees	5,380	
Staff party	55,000	
Unrealised foreign exchange losses	168,160	
Loss on sale of fixed assets	140,000	
Penalties- NEMA	40,000	
Penalties - Police	25,000	
Donation to Uganda Manufacturers Association	130,000	
Donation to Makerere University (wk 4)	43,028	
School fees for staff children	120,000	
		3,107,528
Less		
Unrealised foreign exchange gains	135,220	
Initial allowance	250,000	
Capital allowances	1,166,153	
Industrial building allowance	72,000	
Green house allowance	45,000	
		(1,659,373)
Chargeable income		3,932,475
Less Loss brought forward		(901,330.4)
Taxable income		3,031,145
Tax at 30%		909,343
Less provisional tax		(592,890)
Balance of tax payable		316,453

Working 1 – Capital allowances

	Cost	Initial allowance	Class I	Class II	Class III	Class IV	Total
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
		50%	40%	35%	30%	20%	
TWDV 1 Jul 2019			125,475	230,800	1,342,623	486,980	2,185,878
Additions							
Expansion of labour quarters	150,000	-				150,000	150,000
10 Coffee sorters	500,000	250,000			250,000		250,000
Extension of water drainage channels	50,000	-				50,000	50,000
10 Lorries	850,000	-			850,000		850,000
Coffee processor	1,000,000				1,000,000		1,000,000
		250,000	125,475	230,800	3,442,623	686,980	4,485,878
Disposals							
Coffee processor	(450,000)				(450,000)		(450,000)
			125,475	230,800	2,992,623	686,980	4,035,878
Depreciation allowance			(50,190)	(80,780)	(897,787)	(137,396)	(1,166,153)
TWDV 30 Jun 20			75,285	150,020	2,094,836	549,584	2,869,725

Working 2 – Industrial building allowance

	Shs '000'
Qualifying cost 1 Jul 2016	1,800,000
Allowance up to June =2019	
$1,800,000 \times 5\% \times 3$	(270,000)
Residue of expenditure 30 Jun 2019	1,530,000
Allowance for ended June 2020	
$1,800,000 \times 5\%$	90,000
Allowance for 2020 (Only 80%) (Section 29(3))	72,000
Residue of expenditure at 30 Jun 2020	1,440,000

Working 3 - Allowable interest for a member of a group

EBITDA Determination	Shs '000'
Gross income less allowable deductions	3,932,475
Add tax depreciation	1,166,153
Add Interest	320,000
	5,418,628
30%	1,625,588
All the interest will be allowable since it is lower than the calculated amount	

Working 4- Donations

	Shs '000'
Chargeable income before charging donation (Chargeable income plus donation) (3,889,447 + 250,000)	4,139,447
5%	206,972
Donation	250,000
Donation not allowed	43,028

Working 5 – Greenhouse allowance

	Shs '000'
Cost	180,000
Allowance (20%)	(36,000)
	144,000

(ii) Penalties due

1. Penalty for underestimating chargeable income (under – provision)

	Shs '000'
Actual payable tax	907,343
90% of the tax	816,609
Tax paid on provisional	592,890
Difference	223,719
Penalty (20%)	44,744

2. Penalty for late submission of final return

The due date for filing the return was 31 December 2020 and so return is late by 1 month	Shs '000'
The penalty is 10 currency points per month or 2 % of tax payable whichever is higher	
200,000 *1	200
Or 2% * tax due	
907,343,000 * 2%	18,147
The penalty is 18,105,000	

3. Interest for late payment of tax

	Shs '000'
Tax payment was due by 31 December 2020 and therefore is late by 1 month	
316,453 *2%	6,329.06

(b) **Tax planning – meaning**

Tax planning is the arrangement of the affairs of a taxpayer in such a way so as to achieve the lowest possible tax liability at the lowest possible cost without contravening any tax laws and regulations.

- The company can pursue the route of requesting for exemptions that accrue to taxpayers who are dealing in agro processing
- Spend less on non allowable expenses such as donations to entities that are not exempt from tax and entertainment

- The company can pursue the route of manufacturing the finished coffee for export so as to benefit from exemption from tax for taxpayer who export more than 80% of their produce.
- Consider whether it is possible for the parent shareholder to relocate to another country where there are reduced rates of withholding tax.
- Capital allowances- when the company is expanding, consideration should be made on whether majority of operations can be relocated to Mubende to get more capital allowances in form of initial allowances.
- Ensure good tax compliance behavior so that the company does not attract unnecessary penalties.
- Ensure that all available deductions are claimed by keeping all the necessary supporting documents and dealing with taxpayers that are registered (TIN).
- In case of purchase of vehicles for use in the business, use commercial dual purpose vehicles rather than passenger vehicles.
- Ensure that intercompany transactions are well documented and at arm's length.

Solution 2

(a) Mr Byakatonda Severino – Computation of employment income and tax payable

Item	Computation-Shs	Shs
Gross salary	12,000,000 *12	144,000,000
Medical Insurance	Exempted under Section 19 (2) (b)	-
Motor vehicle benefit	See working (1)	12,675,000
Bonus		12,000,000
Lunch allowance	400,000*12	4,800,000
Entertainment	2,000,000*12	24,000,000
Club membership	1,500,000*12	18,000,000
ICPAU Subscription fees	Exempted as it is a necessary expenditure by the company to enable one practice as an accountant in the company	-
	Total employment income	215,475,000
	Tax on employment income	
	(215,475,000 – 4,920,000)*30% +300,000	63,466,500
	(215,475,000- 120,000,000) * 10%	9,547,500
	Tax on employment income	73,014,000

Working 1 - Motor vehicle benefit	
July 17 - June 18	Shs
Cost	150,000,000
Notional Depreciation (35%)	(52,500,000)
Depreciated cost Jul 18	97,500,000
Depreciation (35%)	(34,125,000)
Depreciated cost 1 July 2019	63,375,000
Benefit (20% x A x B/C) – D (20% x 63,375,000 x 365/365)-0	12,675,000

Rental tax computation

Rent income earned $1,000,000 \times 6 \times 12$	72,000,000
Less	
20% of income as expenses	(14,400,000)
Mortgage interest	(12,500,000)
	45,100,000
Less threshold	(2,820,000)
Chargeable rental income	42,280,000
Tax at 20%	(8,456,000)
Income after tax	33,824,000

Expenses incurred to maintain the rented properties cannot be deducted since the Act allows only 20% of the income.

Rental tax is taxed separately from other income from employment, business and property income.

- (b) a person is a resident individual for a year of income if that individual
- has a permanent home in Uganda.
 - is present in Uganda for a period of, or periods in aggregate to, 183 days or more in any twelve- month period that commences or ends during the year of income, or
 - is present in Uganda during the year of income and in each of the two preceding years of income for periods averaging more than 122 days in each such year of income, or
 - is an employee or official of the Government of Uganda posted abroad during the year of income
- (c) Differences in the tax treatment of income earned by resident individuals and nonresident individuals
- Non resident:
- the gross income of a non resident individual will include only income derived from sources in Uganda.
 - A nonresident will not be allowed a threshold and expenses on the income earned.
- Resident:
- The gross income of a resident individual includes income derived from all geographical sources.
 - A resident individual is allowed a threshold and expenses of deriving income.

Solution 3

(a)

Output VAT - VAT Inclusive

Customer	sales amount (USD)	Exch rate	Sales Amount UGX	VAT (18/118)	Exclusive	Comment
			Sh '000'	Sh '000'	Sh '000'	
Beat Telcom Uganda Ltd (Uganda)	680,000	3,650	2,482,000	378,610.17	2,103,390	Standard
Stop Telcom Uganda Ltd (Uganda)	255,000	3,650	930,750	141,978.81	788,771	standard
Beat Telcom Rwanda Ltd (Rwanda)	123,500	3,650	450,775	-	450,775	Zero rate exports
Stop Telcom Zambia Ltd (Zambia)	89,700	3,650	327,405	-	327,405	Zero rate exports
Sale of Motor Vehicle	-	-	11,450	1,746.61	9,703	Standard
			-			
Imported Services	50,000	3,650	182,500	32,850.00	182,500	Imported services charged at 18% since it is a purchase
Total output tax				555,185.59		

Input Tax – VAT exclusive

Description	Amount UGX	VAT (18%)	Comment
	Shs '000'	Shs '000'	
Paid for the supply of telecom installation services by Bemba Limited	1,253,900	225,702	Standard
Paid for the supply of telephone services by Beat Telecom Uganda Ltd	50,980	8,258.76	50,980,000 * 18*90% 10% of telephone expenses not claimable
Paid for the supply of office consumables (all standard rated) by Good Deal Supermarket	12,500	2,250	
Paid for a motor vehicle (Landcruizer Prado) from the car bond at Nakawa	85,000	0	VAT blocked - Passenger vehicle
Paid staff salaries for the month of September	1,560,000	0	Out of scope

Bought unimproved Land in Luwero District	580,000	0	Exempt
Paid audit fees to Allied CPA Consultants	15,000	2,700	Standard
Paid rent for September	330,000	59,400	Standard
	3,887,380	298,310.76	

VAT Payable/claimable

	Shs '000'
Output VAT	555,185.59
Less Input VAT	(298,310.76)
	256,874.83
Less offset brought forward	(124,390.00)
VAT payable for December	132,484.83

According to the current practice, VAT on imported services is not available to offset from input VAT for the month and is paid separately. An alternative solution following the practice would be as below

VAT Payable/claimable

	Shs '000'
Output VAT	522,335.59
Less Input VAT	(298,310.76)
	224,024.83
Less offset brought forward	(124,390.00)
VAT payable for December	99,634.83
VAT on imported services	32,850.00
Total VAT Payable	132,484.83

- (b) According to Section 65 of the VAT Act, where a person knowingly or recklessly:
- makes a statement or declaration to an official of the URA that is false or misleading in a material particular; or
 - omits from a statement made to an official of the URA any matter or thing without which the statement is misleading in a material particular;and the person submitted a return with an incorrect offset claim
 - that person is liable to pay penal tax equal to double the amount of the excess claim.

Amount claimed which should not have been claimed

Particular	Amount VAT exclusive Shs	VAT (18%)
buying a mini bus	120,000,000	21,600,000
entertainment	86,790,000	15,622,200
		37,222,200

The VAT that is included in the offset amount of November in error is Shs 37,222,200 and therefore the penal tax will be Shs 74,444,400.

A person who knowingly or recklessly

- makes a statement or declaration to an official of the URA that is false or misleading in a material particular, or
- omits from a statement made to an official of the URA any matter or thing without which the statement is misleading in a material particular, commits an offense and is liable on conviction to a fine not exceeding 48 Currency points (Shs 960,000), or to imprisonment not exceeding two years or both.

(c) Compounding offences (TPCA Section 66)

if a person has committed an offense under a tax law, the Commissioner may, at any time prior to commencement of court proceedings, enter into an agreement with the offender to compound the offence if the offender agrees to pay the Commissioner

- Any unpaid tax, and
- An amount not exceeding the maximum fine imposed by the tax law for the offense.
- The Commissioner may compound an offense only if the offender admits, in writing, committing the offense and requests the Commissioner to enter into a compounding agreement in relation to the offense.
- Where the commissioner compounds an offense, the offender is not liable for prosecution or penal tax in respect of the same act or omission that was the subject of the compounded offense.

Solution 4

(a)

(i) Powers of the Commissioner regarding a tax avoidance scheme

- In any transaction between associates, the Commissioner may distribute, apportion or allocate income, deductions or credits between the associates as is necessary to reflect the chargeable income by the taxpayer in an arm's length transaction
- The Commissioner may adjust the income arising in respect of any transfer or license of intangible property between associates so that it is commensurate with the income attributable to the property
- The Commissioner may determine the source of income and the nature of any payment or loss as revenue, capital or otherwise
- The Commissioner may re characterize a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme
- Disregard a transaction that does not have substantial economic effect

- Re characterize a transaction the form of which does not reflect the substance

(ii) Likely tax implication

The Commissioner is likely to re characterize the management fees as non allowable deduction and add it back in the tax computation.

Loss before tax	Shs (200,000,000)
Add back management fees	<u>300,000,000</u>
Adjusted profit	<u>100,000,000</u>

Possible penalties for providing the URA with misleading information.

(b) Documentation required defending the arm's length price of management fees

- A management services agreement stating the nature of the services to be provided should be in place
- A detailed written description of the different services summarizing the type, skills employed, expertise and number of employees involved
- Statement of the aims/ objectives of the service to be provided
- There should be evidence that the services have been provided in the stipulated manner in the agreement
- There should be documented justification of any mark up applied
- Full analysis of cost base including explanations, allocation formula and how they apply
- Detailed computation of the amounts in each invoice
- Statement of whether the price is at arm's length and how it was determined
- Where it is not possible to obtain an arm's length price, a justification of the price adopted

(c) **Description of a tax haven**

This means any country having a low or zero rate of tax on all or certain categories of income, and offering a certain level of banking or commercial secrecy.

Characteristics

- Low or nil tax on some or all types of income and capital
- Secrecy – banking and /or commercial. This provides opportunities not only for tax avoidance but for tax evasion as well. This can also be described as lack of effective exchange of information
- Absence of exchange controls
- Provision of offshore banking facilities
- Good communication facilities
- Political stability
- Opportunities for multilateral tax planning
- Favorable disposition to foreign capital
- Availability of professional advisers
- Handy location, decent climate for communication and to attract staff
- Freedom from excessive regulation

Solution 5

(a) Tax exposure of Alpha Oil Limited

The transaction will lead to a taxable capital gain calculated as below;

Item	Amount USD	Amount USD
Consideration		3,000,000
Cost base of the business asset		
Exploration expenditure for the whole interest	2,500,000	
Expenditure for the area farmed out (1/4)	625,000	
Consultancy fees paid	100,000	
Cost base of area farmed out		(725,000)
CAPITAL GAIN		2,275,000
Tax (30%)		682,500
Tax is paid in UGX		
Exchange rate August 2020		3,675
Tax payable in UGX		2,508,187,500

Tax payable on the fee paid to the non -resident contractor

	USD
A licensee paying a service fee to a non resident contractor shall withhold tax on the gross amount paid at 10%	
Payment to OIN	100,000
The withholding tax is payable at the time the fee is actually paid	
Therefore the withholding tax is payable in August	
Tax payable (10%)	10,000
Exchange rate	3,690
Tax in UGX	36,900,000

(b) Modifications for filing of returns of a licensee

- A licensee shall furnish a return not later than 7 days after the end of every month in respect of the provisional payments
- Not later than 30 days before the beginning of the year of income, a contractor shall furnish a return, including particulars for each calendar quarter of the year, estimated to the best of the contractor's judgement , and shall furnish updates of the return within 7 days after the end of each of the first three calendar quarters in the year
- The Commissioner may require a duly appointed agent or trustee of the licensee, whether taxable or not, to furnish a return on the licensee's behalf or as an agent or trustee of the licensee
- In addition to a return furnished on a licensee's own behalf, the Commissioner may require a licensee acting as an operator in a contract area, to furnish a

return in respect of that area on behalf of all licensees with an interest in the petroleum agreement

- The return shall include particulars of petroleum revenues and other taxes prescribed by the Commissioner
- A return required for any period shall be furnished whether revenues or other taxes are payable for the period or not
- The Commissioner may make provision permitting or requiring a licensee to submit returns electronically

(c) Definition of Petroleum Development Expenditure

This means expenditure incurred by a licensee in undertaking operations authorized under a petroleum production license.

Tax provisions

- If the cost of acquiring an intangible asset is petroleum development expenditure, the useful life of the asset is the lesser of;
 - a) the expected life of the petroleum development operations to which the asset relates; or
 - b) six years
- A licensee shall be allowed a deduction on a straight line basis for petroleum development expenditure which is not intangible asset, over the lesser of;
 - a) the expected life of the petroleum development operations to which the asset relates; or
 - b) six years
- If a depreciable asset for use in petroleum development operations is acquired or constructed by a licensee before the commencement of commercial production, depreciation (s. 27) shall apply to the asset as if it was acquired or constructed at the time of commencement of the commercial production.
- If petroleum development expenditure is incurred before the commencement of commercial production intangible asset and depreciation shall apply to the expenditure as if it was incurred at the time of commencement of commercial production.
- The amount of deduction for a depreciable asset or petroleum development expenditure for the year of income in which the commencement of commercial production occurs shall be computed according to the formula
$$A \times B/C$$
 where
A is the amount of the cost of the asset or the amount of expenditure
B is the number of days in the period beginning on the date of commencement of commercial production and ending on the last day of the year of income in which commercial production commenced
C is the number of days in the year of income in which commercial production commenced.

ANSWERS TO TEST PAPER 10

CPA (U) OCTOBER 2021

Solution 1

(a) HLUL Computation of tax payable for the year ended 31 December 2020

	Shs '000'	Shs '000'
Profit before tax		70,529,100
Add back		
Depreciation of plant & machinery	22,145,600	
Finance lease - Principal	2,120,000	
Fine paid to the City Authority for inappropriate waste management	5,200	
Un receipted payment to Ministry of Industry official for renewal of manufacturing permit	5,000	
Provision for bad and doubtful debts	125,000	
Advertising (free products)	120,000	
Donation to the COVID 19 Task force	100,000	
Fines - Road Traffic express penalties	5,900	
Sponsorship for Member of Parliament - Mbale District	50,000	
Entertainment	50,000	
Unrealised foreign exchange loss	23,500	
Subscriptions for staff to Mbale Fitness club	50,000	
Life insurance premiums paid for staff	125,000	
General expenses not supported by receipts	15,500	
		24,940,700
Less		
Unrealised foreign exchange gain	18,500	
Gain on sale of fixed assets	53,000	
Initial allowance -	3,101,250	
IBA	263,200	
Capital allowances	2,658,826	
Minor capital assets	56,000	
		(6,150,776)
Chargeable income		89,319,025
Tax loss b/f		(13,500,000)
Adjusted Chargeable income		75,819,025
Tax Payable (30%)		22,745,707
Less provisional tax paid		(950,000)
Tax Payable		21,795,707

Interest capping working (working 1)

EBITDA	
Chargeable income	89,319,025
Add interest	360,000
	89,679,025
Interest cap 30%	26,903,707
All the interest is allowable	

(b) Computation of Capital allowances

(i) Industrial Building Allowances

	Shs '000'
Cost of building	5,500,000
Capitalised interest (USD 300,000 x 3,600)	1,080,000
	6,580,000
Initial allowance (20%)	1,316,000
Cost for IBA	5,264,000
IBA (5%)	263,200

(ii) Depreciation allowances

	cost	initial allowance	Qualifying cost					
	shs '000'	shs '000'	shs '000'	shs '000'	shs '000'	shs '000'	shs '000'	shs '000'
				class 1	class 2	class 3	class 4	
		50%		40%	35%	30%	20%	
TWDV b/f				112,890	175,670	4,635,800	1,870,600	6,794,960
Additions								
Plant and machinery	3,545,500	1,772,750	1,772,750			1,772,750		1,772,750
Five 12-ton Lorries	925,000		925,000			925,000		925,000
10 Laptops	25,000	12,500	12,500	12,500				12,500
		1,785,250	2,710,250	125,390	175,670	7,333,550	1,870,600	9,505,210
Disposals								
Two scrapped 12-ton lorries						(90,000)		(90,000)
				125,390	175,670	7,243,550	1,870,600	9,415,210
Depreciation Allowance				(50,156)	(61,485)	(2,173,065)	(374,120)	(2,658,826)
Written Down Value c/f				75,234	114,186	5,070,485	1,496,480	6,756,385

(c) Provisions regarding the taxation of Finance leases

Under ITA, a lease of property is finance lease if:

- the lease term exceeds seventy-five per cent of the effective life of the leased property;
- the lessee has an option to purchase the property for a fixed or determinable price at the expiration of the lease; or
- the estimated residual value of the property to the lessor at the expiration of the lease term is less than twenty per cent of its fair market value at the commencement of the lease.

The tax implications of the finance lease are:

- the lessee is treated as the owner of the property (hence entitled to capital allowances like depreciation allowance).
- the lessor is treated as having made a loan to the lessee, in respect of which payments of interest and principal are made equal in amount to the rental payable by the lessee.
- The interest component of each payment under the loan is treated as interest expense incurred by the lessee which is allowed for tax purposes

Operating lease

- For a lease other than a finance lease, the ownership of the property remains with the Lessor.
- The lessee is not entitled to capital allowances in regard to the property.
- Lease payments made by the lessee to the lessor are an allowable deduction in arriving at chargeable income.

(d) Treatment of assessed losses

Where for any year of income, the total amount of income included in gross income of a taxpayer is exceeded by the total amount of deductions allowed to the taxpayer; the amount of the excess "assessed loss" shall be carried forward and allowed as a deduction in determining the taxpayer's chargeable income in the following year.

(e) Advice of the tax implications of sale of shares by HLIL to WIL

Change of control of companies Section 75 of the Income Tax Act

Where during a year of income there has been a change of 50% or more in the underlying ownership of a company as compared with its ownership one year previously, the company is not permitted to deduct an assessed loss in the year of income or in subsequent years, unless the company, for a period of two years after the change or until the assessed loss has been exhausted if that occurs within 2 years after the change,

- Continues to carry on the same business after the change as it carried on before the change; and
- Does not engage in any new business or investment after the change where the primary purpose of the company or the beneficial owners of the company is to utilize the assessed losses so as to reduce the tax payable on the income arising from the new business or investment

Since the proposed change of control is more than 50%, the company would not be permitted to deduct the loss brought forward until after 2 years of trading in the same business

Solution 2

- (a) MR John Drumling- Employment income and tax payable for the year ended 31 December 2020.

	Monthly		Annual		
Salary (USD)	10,000	x3,650x12	438,000,000	438,000,000	Taxable
Salary (UGX)	3,400,000	x12	40,800,000	40,800,000	Taxable
Medical Insurance	300,000	x12	3,600,000	-	Not taxable
Airtime benefit	500,000	x12	6,000,000	6,000,000	Taxable
Leave pay	10,000	x 3,650	36,500,000	36,500,000	Taxable
Air tickets	4,000	x 3,650	14,600,000	14,600,000	Taxable
Lunch	20,000	x 5x4x12	4,800,000	-	Not taxable
House keeper	300,000	x12	3,600,000	3,600,000	Taxable
Security guard	250,000	x12	3,000,000	-	Not taxable
Motor vehicle benefit (see working 1)			54,918,033	54,918,033	Taxable
Fuel card	1,000,000	x 11	11,000,000	12,000,000	Taxable
Driver	520,000	x 11	5,720,000	5,720,000	Taxable
Travelling abroad	1,000	x3,650x7	25,550,000	-	Not taxable
Travelling in country	500,000	x20	10,000,000	-	Not taxable
Health club membership	300,000	x 12	3,600,000	3,600,000	Taxable
Annual subscription	1,000,000	x 1	1,000,000	-	Not taxable
Reimbursement air tickets	5,000	x 3650	18,250,000	-	Not taxable
Relocation allowance	10,000,000		10,000,000	-	Not taxable
Compensation	20,000	x 3650	73,000,000	3,000,000	Taxable
Housing benefit (working 2)			128,090,705	128,090,705	Taxable
Total Employment Income				816,828,738	

Tax payable

300,000 + 30% x(816,828,738-4,920,000)	240,428,621
(816,828,738 - 120,000,000) x 10%	69,632,874
Total tax payable	310,111,495

Working 1 - Motor Vehicle benefit		
(20% x A x B/C)- D		
A =	Market value of car	300,000,000
B =	No of days the car is available for use (366-31)	335
C =	Number of days in the year	366
D =	Payment made by the employee for the benefit	0
Benefit	(20% x 300,000,000 x 335/366)-0	54,918,033

Working 2 Housing Benefit	
Employment income excluding rent	687,738,033
Market rent (4,000*3,650 *12)	175,200,000
Employment income including rent	853,938,033
15% of employment income	128,090,705
Benefit is lesser of 15% of employment income or market rent paid	

- (b) Tax implications of dividends and interest income received from abroad
- Mr John Drumlings contract runs for three years renewable and that makes him tax resident in Uganda. Tax residents are taxed on their world wide income and therefore the dividend income and interest income are taxable in Uganda (property income).
 - Mr John will be entitled to a foreign tax credit for any foreign income tax paid in respect of income earned from outside Uganda.
- (c) Examples of employment income that are not taxed
- Discharge or re-imbursement of medical expenses, including medical insurance premiums.
 - Employee passage charges (on taking up employment or termination) to and from Uganda for a non-citizen recruited or engaged outside Uganda and is solely in Uganda for the purpose of serving the employer.
 - Life insurance premiums paid by a taxable employer for the benefit of the employee or employee's dependants.
 - Allowance given for and which does not exceed the cost actually or likely to be incurred, discharge or reimbursement of expenses incurred by the

employee on accommodation and travel and meals and refreshment while undertaking travel while on official duty e.g. per diems.

- Meals and refreshments or value thereof provided to all fulltime employees in premises operated by, or on behalf of the employer on equal terms.
- Any benefit granted by the employer to the employee during a month where the total value of the benefits provided by the employer to the employee for the month is less than Shs. 10,000.
- Any contribution or similar payment by the employer made to a retirement fund for the benefit of the employee or any of his or her dependents.
- The value of a right or option to acquire shares granted to an employee under an employee share acquisition scheme.
- 25% of any amount obtained by an employee for termination of employment where the employee has been in employment of the employer for 10 years or more.

Solution 3

(a)

(i) Taxation of a non-resident taxpayer in Uganda

Section 17- the gross income of a non-resident person includes only income derived from sources in Uganda

Section 83- A tax is imposed on every nonresident person who derives any dividend, interest, royalty, rent, natural resource payment or management charge derived by a non-resident person

The tax payable by a non resident person is calculated by applying the rate of 15% (part IV of the Third Schedule) to the gross amount of the dividend, interest, royalty, rent, natural resource payment or management charge derived by a non resident person

The tax imposed to the nonresident is a final tax on the income on which the tax has been imposed and

- That income is not included in the gross income of the nonresident person who derives the income
- No deduction is allowed for any expenditure or losses incurred by the nonresident person in deriving that income; and
- The liability of the nonresident person is satisfied if the tax payable has been withheld by a withholding agent and paid to the commissioner

Section 118B- A resident person who purchases an asset from a non resident person shall withhold tax on the gross amount of the payment at the rate of 10% (Part VIII of the Third Schedule) .

(ii) Computation of tax payable by Mr Patel

Tax Head	Shs '000'	Rate of tax	Tax Shs '000'	Comment
Rental income	3,000,000	15%	450,000	Final tax
Dividends	100,000	15%	15,000	Final tax
Sale of property	1,200,000	10%	120,000	Not final
			585,000	

Capital gain on sale of commercial property

	Shs '000'
Proceeds	1,200,000
less cost base	(435,500)
Capital gain	764,500
Tax (30%)	229,350
Less WHT	(120,000)
Balance of tax payable	109,350

(b) Differences between a Subsidiary and a branch.

branch	subsidiary
Taxable only on income sourced in Uganda	Taxable on worldwide income
Head Office costs are allowed as deductions only to the extent that they are directly incurred in earning income taxed in Uganda. General Head office expenses are not allowed	Can claim deductions on interest on loans given by the parent company, management fees and head office expenses
Interest on head office loans are not allowed as deductions for the branch since the parent and branch are treated as one entity	Able to obtain funding from the parent company and obtain a deduction for the interest paid on the loans as long as it is within the agreeable ratios
Liable to 15% tax on repatriated branch profits	Required to charge 15% final WHT on management fees and dividends
Easy and much faster to register, since all the required documentation is already available (head office documents are used)	The registration process is slightly longer as opposed to branch registration
No restrictions on profit repatriation, provided tax is paid on branch repatriated profits	No restrictions on payment of dividends or management fees provided that WHT on the remittances is paid

Solution 4

(a)

OUTPUT TAX (Inclusive)			
	Shs '000'	VAT 18/118	Comment
Sugar	250,000	38,135.59	standard rate
educational materials	12,000	0	zero rate
sanitary towels	6,500	0	zero rate
wheat flour	18,000	2,746	standard rate
diapers	1,500	-	exempt
mosquito nets	4,000	-	exempt
Medical face masks	2,500	-	exempt
Clothing	52,000	7,932	standard rate
processed milk	5,500	-	exempt
		48,813.56	

INPUT VAT (Exclusive)	Shs '000'	VAT 18%	Comment
sugar	200,000	36,000	Standard rate
educational materials	6,000	0	Zero rate
diapers	5,000	-	Exempt
wheat flour	25,000	4,500	Standard rate
processed milk	3,000	-	Exempt
clothing	120,000	21,600	Standard rate
Motor vehicle - salon car	35,000	-	Standard / not claimable
telephone	3,000	486.0	90% allowed
rent	1,000	180	Standard
fuel (Petrol)	3,500	-	Exempt
Motor vehicle repair and service (car)	4,500	-	Standard/ not claimable
Security expenses	2,000	360	Standard
		63,126	

VAT Tax payable / (claimable)

Deals in both exempt and taxable sales, so input may be apportioned. Ratio of taxable sales to total sales is $338,500/352,000 = 96\%$. So can claim all allowable input tax.

	Shs '000'
Output VAT	48,813.56
Offset brought forward	(1,432.00)
Input VAT	(63,126.00)
VAT claimable	(15,744.44)

(b)

(i) Advantages of EFRIS

- Record keeping especially stock management is made easier since all stock have to be entered into the system before any sales can be made.
- All purchases and imports are in EFRIS ensuring completeness in claim for input VAT.
- Refund claims using e-receipts and e-invoices are fast tracked given that all the information is already in the system.
- Able to validate business transactions in real time therefore leading to efficient business management.
- Minimising the cost of making returns since the system provides the reports to populate the report. URA has in plan to avail prefilled returns where the taxpayer will only verify that information is correct and validate.

(ii) Penalties for not implementing EFRIS

- A taxpayer who does not use an electronic fiscal device is liable to pay a penal tax equivalent to the tax due on the goods or services or 400 currency points (Shs 8,000,000), whichever is higher
- A taxpayer who does not issue an e-invoice or e-receipt for goods or services is liable to pay a penal tax equivalent to the tax due on the goods or services or 300 currency points (Shs 6,000,000) , whichever is higher
- A person who attempts to acquire or who acquires an electronic fiscal device that is not linked to the centralised invoicing and receipting system or authenticated by the URA commits an offence and is liable, on conviction to a term of imprisonment not exceeding three years or a fine not exceeding 300 currency points (Shs. 6,000,000) or both

Solution 5

(a) Customs Value and Taxes payable

	Amount USD	To be included in customs value	
Cost as per commercial invoice	120,000	120,000	444,000,000
Loan arrangement fees	1,200	-	-
Royalty	30,000	30,000	111,000,000
Transport in China	300	300	1,110,000
Storage at Guangzhou	2,800	2,800	10,360,000
Shipping charges	4,500	4,500	16,650,000
Marine insurance	2,500	2,500	9,250,000
Transport and Insurance to Kampala	3,000	-	-
		160,100.00	592,370,000
Exchange rate	3,700		
Customs Value		592,370,000	

Customs Value (CIF)	592,370,000
Import duty (finished goods) $592,370,000 \times 25\%$	148,092,500
VAT (Customs Value + Import duty) $\times 18\%$ $= (592,370,000 + 148,092,500) \times 0.18$	133,283,250
Infrastructure Levy $(CIF \times 1.5\%) = 592,370,000 \times 1.5\%$	8,885,550
Withholding Tax $(CIF \times 6\%)$	35,542,200
Total taxes	325,803,500

(b) Meaning of duty draw back

This is a mechanism that allows exporters to claim import duties on importation of goods or other inputs used for the production of goods for export. It precisely means "a refund of all or part of any import duty paid in respect of goods exported or used in a manner or for a purpose prescribed as a condition for granting duty drawback"

Taxpayers who qualify for duty drawback

- Must register with the Commissioner Customs
- Tax payer must enter goods, where duty drawback is to be claimed, in the prescribed form and in a prescribed manner and produce such goods for examination by the proper officer before exportation of the goods or performance of the conditions on which drawback is allowed

- The tax payer will make declaration on prescribed form that in case of goods exported that;
 - ✓ Such goods have actually been exported
 - ✓ Such goods have not been re-imported and are not intended to be re-imported
 - ✓ The owner at the time of declaration of such goods for drawback was, and continues to be entitled to drawback
 - The claim for drawback must be presented within a period of 12 months from the date of exportation of the goods or the performance of the conditions on which drawback may be allowed
- (c) Reasons why countries restrict the importation of certain goods
- Protection of society from harmful or environmentally hazardous products like ozone layer depleting substances
 - Protect the country against dumping by other countries especially of cheap or substandard goods
 - Protect local industries and local market so as to develop the capacity of local industries in the country
 - For security reasons

ANSWERS TO TEST PAPER 11

CPA (U) DECEMBER 2021

Solution 1

- (a) Computation of the chargeable income and tax payable (if any) for Uganda Modern Coverings Ltd for the year ended 30 June, 2021

	Shs '000'	Shs '000'
Profit before Tax		15,425,000
Add back		
Overvalued inventory	200,000	
Provision for bad debts	347,600	
Depreciation	2,677,500	
Entertainment	243,000	
Donations	295,000	
Payment to company without TIN (Xtrail)	50,000	
Repairs and maintenance (asset class 3)	100,000	
Bribe to standards authority	20,000	
Life insurance premiums	200,000	
NEMA fine	35,000	
Penalty for late payment of VAT	27,500	
		4,195,600
Deduct		
Gain on disposal of property, plant and equipment	646,550	
Unrealised foreign exchange gain	476,950	
Interest earned on investment in Bank of Uganda Treasury bills	1,000,000	
Industrial building allowance	248,000	
Initial allowance	1,000,000	
Capital allowances	9,156,859	
		(12,528,359)
CHARGEABLE INCOME		7,092,241
Loss brought forward		(13,724,687)
Loss carried forward		(6,632,446)
Withholding tax credit claimable		900,000
		Total

Working 1 - Capital allowance computation

			Class 1	Class 2	Class 3	Class 4	Total
	Cost	Initial allowance	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
		50%	40%	35%	30%	20%	
TWDV 01/07/2020			145,000	820,525	25,020,300	4,059,175	30,045,000
Additions							
Land in Jinja (not depreciable)	250,000	-	-	-	-	-	-
Galvanising machine	100,000	50,000			50,000		50,000
5 Trailers with mounted containers at Shs 300 million each	1,500,000				1,500,000		1,500,000
2 Saloon cars each at Shs 25 million	50,000			50,000			50,000
10 Computers each at Shs 7.5 million	75,000	37,500	37,500				37,500
Manufacturing equipment	625,000	312,500			312,500		312,500
Office Furniture and fittings	75,000					75,000	75,000
		400,000	182,500	870,525	26,882,800	4,134,175	32,020,000
Disposals			-	-	(375,000)	-	(375,000)
			182,500	870,525	26,507,800	4,134,175	31,695,000
Capital allowances			(73,000)	(304,684)	(7,952,340)	(826,835)	(9,156,859)
TWDV 30/06/2021			109,500	565,841	18,555,460	3,307,340	22,538,141
							Total

Working 2 – Industrial Building allowance

IBA	Cost Shs '000'	Initial allowance	Q cost	Residue 01/07/20	IBA	Residue 30/06/21
		20%				
Original Factory building	960,000	-	960,000	96,000	48,000	48,000
Extension	1,600,000	-	1,600,000	960,000	80,000	880,000
New building	3,000,000	600,000	2,400,000	-	120,000	2,280,000
					248,000	
						Total

- (b) According to Section 25 (3), the amount of deductible interest in respect of all debts owed by a taxpayer who is a member of a group, shall not exceed 30% of the Tax earnings before interest, tax, depreciation and amortization.

Tax earnings before interest, tax depreciation and amortization means the total of

	Shs '000'
Gross income less allowable deductions	7,092,241
Add interest	900,000
Add depreciation	9,156,859
	17,149,100
30%	5,144,730
Since 30 % of the TEBITD&A is higher, all the interest is deductible	

- (c) Withholding tax.

Withholding tax	Amount paid	Tax payable	due date	months late	Interest (2% per month)
	Shs 000	Shs 000			Shs '000'
Management fees (10 % UG - India DTA)	2,600,000	260,000	15/06/2021	5	26,000
Professional and technical fees (2,225,000-50,000) (6%)	2,175,000	130,500	15/01/2021	10	26,100
		390,500			52,100

The WHT Payable is Shs. 390,500,000 and interest due up to 31 October 2021 is Shs. 52,100,000.

(d) Implications of proposed transactions:

- (i) Tax implications of change of 60% of underlying ownership
 - The company may not be permitted to deduct an assessed loss in 2021 or 2022 & 2023, unless the company.
 - For a period of two years after the change the company continues to carry on the same business after the change as it carried on before the change.
 - The company does not engage in any new business or investment after the change where the primary purpose of the company is to utilize the assessed loss so as to reduce the tax payable on the income arising from the new business or investment.
- (ii) Possible capital gains on share disposal by Shree if the assets of UMC are principally comprised of immovable property. Sec 79(g) of ITA.
- (iii) Possible capital gains under Sec 79(ga)

Where a company changes its ownership by 50% or more within a period of three years shall be treated as

 - Realizing all its assets and liabilities immediately before the change
 - Having parted with ownership of each asset and deriving an amount in respect of the realization equal to the market value of the asset at the time of realization
 - this implies that the market value will be compared with cost base to determine if there is any capital gain/loss
 - Capital gain will be taxable and loss deductible
 - Re-acquiring the asset and incurring expenditure of the amount equal to the market value
 - This implies that capital allowances will now be granted on the re-acquired assets
 - Realizing each liability and is deemed to have spent the amount equal to the market value of each liability at the time of realization
 - this implies a gain or loss may be realized which will be adjusted for accordingly
 - Re-stating the liability for the market value of the liability

Solution 2

(a) Mr. Patel's chargeable employment income and tax payable for the month of January 2021

	Amount USD	exchange rate	Amount in UGX	Taxable Amount UGX	Comment
Reimbursement of relocation costs	25,000	3,600	90,000,000	-	Exempt S 19(2) (a)
Monthly salary deposited in India	4,000	3,600	14,400,000	14,400,000	
Monthly salary deposited in UG			3,600,000	3,600,000	
Car benefit (see working 1)			4,166,667	4,166,667	
Electricity			450,000	450,000	
Water			200,000	200,000	
Telephone			520,000	520,000	
Furniture allowance			50,000,000	50,000,000	
Security guard			300,000	-	Exempt (Practice note 2001)
House servant			250,000	250,000	
Medical insurance			600,000	-	Exempt S19(2) (b)
School fees	6,000	3,600	21,600,000	21,600,000	
Staff lunch			300,000	-	Exempt S 19 (2) (e)
Entertainment allowance			2,000,000	2,000,000	
Housing benefit (working 2)			7,200,000	7,200,000	
Chargeable employment income				104,386,667	
Tax payable					
Mr Patel will be staying in Uganda for over 4 years and therefore he will be taxed on the resident rate					
$25,000 + (30\% \times 104,386,667 - 410,000) =$				31,218,000	
$(104,386,667 - 10,000,000) \times 10\%$				9,438,667	
Tax Payable				40,656,667	

Working 1 - Car benefit	Shs
$(20\% \times A \times B/C) - D$	
A = Market value of the vehicle on when first provided for private use of the employee, depreciated on a reducing balance basis at a rate of 35% per annum for subsequent years	250,000,000
B = Number of days in a year during which the car was used or was available for use for private purposes	365
C = Number of days in the year of income	365
D = any payments made by the employee for the benefit	0
$(20\% \times 250,000,000 \times 365/365) - 0$	50,000,000
Benefit for 1 month $(50,000,000/12)$	4,166,666.67

Working 2 - Housing benefit	Shs
Rent paid $(2,000 \times 3,600)$	7,200,000
Employment income including rent	104,386,667
15% of employment income including rent	15,658,000.05
Benefit is lower of the two which is the rental paid	

- (b) Distinction between employee and independent consultant (self employed).
- An employee is required to provide personal service and cannot provide replacement in his absence (master servant relationship).An independent consultant on the other hand only has a contract for services
 - An employee must be subject to a certain degree of control by the employer whereas a self employed person is more likely to have freedom to do work when and where he or she wants
 - An employee is provided with equipment to enable performance whereas an independent consultant provides his/her own equipment
 - An independent consultant will risk his/her resources to deliver the job which is not expected of the employee
 - Employees are usually paid fixed amounts regardless of how much has been delivered. An independent consultant's profit (or loss) depends on capacity to reduce costs by organizing work efficiently
 - An independent consultant can take different short term engagements with different employers which is not possible with an employee
 - Benefits provided such as health insurance, allowances are an indication of an employee – employer relationship

Comment on whether tax obligations will reduce

An independent consultant has an obligation to file income tax returns whereas an employee (where employed by one employer) is not required to file returns

An independent consultant can offset expenses and therefore is able to reduce the gross income as opposed to an employee who is taxed on fixed income with no deductions allowed

An independent consultant can make loss and run out of business when there are unexpected expenditures while performing the job. An employee will earn the negotiated salary even when the company he is working for is loss making.

Therefore Mr Patel needs to weigh all the above before terminating his contract

Solution 3

(a) Computation of VAT payable / (Claimable) for December 2020.

Input VAT					
Date	Description	Amount Shs '000' VAT Excl	VAT (18%)	Claimable	Comment
1	Bought 1,000 bags of Sugar	296,700	53,406	53,406	standard
8	Bought 7,000 bags of cement	148,400	26,712	26,712	standard
15	Bought 2,000 bags of Maize flour	90,600	16,308	16,308	standard
19	Bought assorted medicines	200,900	0	-	Zero rated
22	Bought 5,000 bags of cement	106,000	19,080	19,080	standard
2	Rent	30,000	5,400	5,400	standard
4	Salaries and wages	95,500	-	-	out of scope
4	Health insurance premium	5,820	-	-	Exempt
12	Telephone bills	18,300	3,294	2,965	Only 90% claimable
23	Transportation costs	56,750	10,215	10,215	standard
29	Electricity bills	10,000	1,800	1,800	standard
				135,886	

Output VAT					
Date	Description	Amount Shs '000' VAT inclusive	VAT (18/118)	Payable	Comment
15	Sale of 2,000 bags of cement to a health centre construction funded by the European Union Fund	60,000	9,153	0	VAT is deemed
18	Sale of 500 bags of sugar	17,500	2,669	2,669	Standard
20	Sale of 1,000 bags of maize flour	49,500	7,551	7,551	Standard
29	Export of 3,000 bags of cement to South Sudan	93,000	0	0	Zero rated
30	Sale of medicines	250,000	0	0	Zero rated
30	Sale of 8,000 bags of cement	240,000	36,610	36,610	
				46,831	

VAT Payable/ (claimable)	Shs '000'
Output	46,831
Less input	(135,886)
Offset for the month	(89,055)
Offset brought forward	(12,596)
Offset Carried forward	(101,651)

(b)

(i) Role of tax practitioner to tax client.

To assist clients to comply with the tax laws and regulations; know their obligations and rights:

In doing that they explain the following to clients

- All the taxes they are obliged to pay and how they can comply with the relevant requirements of the tax laws
- The time within which to fulfill the different obligations as laid out in the tax laws; e.g. due dates for return filing, payment of tax e.t.c.
- The need to register for different taxes as soon as they qualify
- The need to keep proper records and maintaining them for the time stipulated in the law (five years)
- The need to provide accurate information and not to provide misleading information (e.g. not including non-existent expenses, tax credits and underreporting income)
- Changes in the tax laws
- Any violations of the tax law that come to the attention of the practitioner

Whether you would assist with the objection

- It is clear from the explanation that the purchase did not happen and is fictitious. A prudent tax agent would let the client know that there is no valid ground of objection to proceed with the objection.

(ii) Penalties:

Section 65 (6) of the VAT Act

- Where a person knowingly or recklessly makes a statement or declaration to an official of URA that is false or misleading in a material particular, and the person submitted a return with an incorrect offset claim,
- That person is liable to pay penal tax equal to double the amount of the claim
- Therefore the excess claim was Shs. 10,250,000 which is payable and penalty of Shs 10,250,000 x 2 = 20,500,000.

Solution 4

anti avoidance rules

(a)

(i) re-characterisation of income and deductions

1. In any transaction between associates the Commissioner may distribute, apportion or allocate income, deductions or credits between the associates as is necessary to reflect the chargeable income realized by the taxpayer in an arm's length transaction.
2. The commissioner may
 - ✓ Recharacterise a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme
 - ✓ Disregard a transaction that does not have substantial economic effect, or
 - ✓ Recharacterise a transaction the form of which does not reflect the substance

(ii) Quantification of what the URA may do

	Shs '000'	Comment
Tax loss reported in return	(1,500,000)	
Add cost of raw materials overstated	500,000	Not at Arm's length
Management fees	900,000	No substantial economic effect. Company has fully functional departments so payment may be seen as a duplication & un-justifiable
Interest	500,000	Does not reflect substance (Loan for which interest is paid not used in business)
Adjusted chargeable income	400,000	
Additional adjusted tax (30%)	120,000	

(iii) Documentation for management fees

- There should be a transfer pricing policy highlighting management services provided

- A written description of the different services to provided, summarizing the type (specialist skills, seniority etc) and number of employees involved, any reports or other end products of the services, and a statement of the aims of the services
- A full analysis of the cost base, including explanations of allocation formulae, how they apply and why they are appropriate
- A detailed list of expenses to be allocated and invoices from the other entities where the expense was suffered
- Detailed computation of the amount of each invoice submitted to the recipient industries
- A justification of the mark up applied referring to comparables or market practice such as;
 - ✓ Evidence of bargaining between the parties in respect of the amount to refute any inference that the taxpayer passively agreed to the charge
 - ✓ Working papers supporting the expenses charged
 - ✓ Details explaining how the charges were calculated including support for apportionment of employee work performed or other expenses such allocation of rental costs
 - ✓ Written agreement of the management charge
 - ✓ Evidence that the expense relate to the period of charge rather than a prior period

(b) Advance pricing agreement (APA)

A request for an APA shall be accompanied with

- A description of the person's activities, controlled transactions and the proposed scope and duration of the agreement.
- A proposal by the person for the determination of the transfer prices for the transactions to be covered by the APA, setting out the comparability factors.
- The selection of the most appropriate transfer pricing method to the circumstances of the controlled transactions.
- Critical assumptions as to the future events under which the determination is proposed.
- Identification of any other countries that the person wishes to participate in the APA.
- Other information which the Commissioner may require.
- TUL must know that the decision to accept or reject the proposed APA lies with the Commissioner.

Solution 5

(a)

(i) Tax implications

Trends Oil Uganda Limited			
	USD	Exchange rate	Shs
Money received	5,000,000	3,500	17,500,000,000
Recouped expenditure	(3,500,000)	3,500	(12,250,000,000)
Consideration for the transferred interest	1,500,000		5,250,000,000
According to S 62 where a previously deducted expenditure is recovered by the taxpayer, the amount recovered is deemed to be income derived by the taxpayer in the year of income in which it is recovered			
Tax will be paid of 30% of recouped income			3,675,000,000

Subsequent transfer of 50% interest by Lakeshore Oil Uganda Ltd			
	USD	Exchange rate	Shs
Money received	3,000,000	3,600	10,800,000,000
Recouped expenditure (50%)	(1,750,000)	3,600	(6,300,000,000)
Additional expenses (50%)	(250,000)	3,600	(900,000,000)
Consideration for the transferred interest	1,000,000		3,600,000,000
Tax will be paid of 30% of recouped income			2,160,000,000

(ii) Offenses and penalties of petroleum establishments

1. Failure to furnish returns (Section 89QA)

Penalty

- Fine of not less than 50,000 USD and not exceeding 500,000 USD (1 mark)
- Where a licensee has been convicted of filing a false or inaccurate returns he is liable to a fine not exceeding 100,000 USD.

2. Making false or misleading statements.

- When the statement or omission was made knowingly or recklessly, to a fine not less than 1,000,000 USD or imprisonment for a term not exceeding five years or both.
- In any other case , to a fine not less than 50,000 USD and not exceeding 500,000 USD.

(b) Withholding tax rules

- A nonresident contractor who derives a fee for the provision of services to a licensee in respect of petroleum operations is liable to pay non-resident contractor tax at the rate of 10% applied to the gross amount of the service fee.
- The same rate shall apply to a non- resident contractor who provides services to a licensee but the service fee is paid to the non-resident by a non- resident associate of the licensee and is later recharged to the licensee by the non- resident associate
- WHT applies to repatriation of profits by contractors to their non –resident shareholders
- Participation dividends are subject to WHT of 10%. A lower rate may apply if the dividend is paid to a resident of a country with whom Uganda has a favourable DTA
- Payments made to resident persons for the right to use any tangible moveable property in Uganda is also subject to WHT
- Tax withheld must be paid to URA within 15 days after the end of the month in which the payment subject to WHT was made
- Licensee is required to maintain, and keep available for inspection by the Commissioner , records showing payment made to Payee and tax withheld from those payments

ANSWERS TO TEST PAPER 12

CPA (U) MARCH 2022

Solution 1

(a)

- (i) Computation of Chargeable income and tax payable for the year ended 31 December 2021.

	Shs '000'	Shs '000'
Profit before Tax		7,377,180
Add back		
Overstated opening stock	100,000	
Water supply works	605,320	
Labour quarters	172,000	
Depreciation of property and equipment	16,595,000	
Bad debts written off - Staff loans	143,000	
Provision for bad debts - a supplier for Sanyu Juice who is under receivership	125,000	
End of year staff party	25,000	
Donation to the District organizing committee for Independence celebrations	50,000	
Fines to Masaka District environment office	12,500	
Contribution to NOD	150,000	
Interest payment - Uganda Development Bank	160,000	
Interest payment - Mr Kyabagu	200,000	
Less		18,337,820
Unrealized foreign exchange gain	(110,000)	
Gain on sale of assets	(45,000)	
Initial allowance	(828,750)	
Industrial building allowance	(75,000)	
Depreciation allowance	(5,103,217)	
		(6,161,967)
Chargeable income		12,175,853
Tax (30%)		3,652,756
Less provisional tax paid		(3,000,000)
Balance of tax payable		652,756

Working 1 – Capital allowances

	cost	IA	Class 1	class 2	class 3	class 4	Total
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
		50%	40%	35%	30%	20%	
WDV 01/01/2021			56,200	325,322	12,963,450	3,220,200	16,565,172
Additions							
Water supply works	605,320					605,320	605,320
Labour quarters	172,000					172,000	172,000
Desk top computers	25,000	12,500	12,500				12,500
Tractors	850,000	425,000			425,000		425,000
Juice crashers	423,000	211,500			211,500		211,500
Agricultural sprayers	59,500	29,750			29,750		29,750
Generator	300,000	150,000				150,000	150,000
Lorries	230,000				230,000		230,000
Landcruiser	120,000			60,000			60,000
		828,750	68,700	385,322	13,859,700	4,147,520	18,072,382
Disposals							
Tractors					(155,000)		(155,000)
			68,700	385,322	13,704,700	4,147,520	17,917,382
Depreciation allowance			27,480	134,863	4,111,410	829,504	5,103,217
TWDV 31/12/2021			41,220	250,459	9,593,290	3,317,856	13,202,825

Land is not a depreciable asset and so is not included.

The land cruiser is restricted to only Shs.60 million.

Work in progress on construction of factory Shs 1 billion is not included for capital allowances.

Industrial building Allowance	Shs '000'
Qualifying cost	1,500,000
Allowance (5%)	(75,000)

- (ii) Section 92 A- the due date for filing the return of income is not later than six months after the end of that year.

Therefore the due date for filing the return is not later than 30 June, 2022.

Penalties computation – understating provisional tax estimates.

	Shs '000'
Chargeable income for the year	12,175,853
90% of the chargeable income	10,958,268
Provisional estimate of chargeable income	10,000,000
Tax at 90%	3,287,480
Provisional tax paid	3,000,000
Difference	287,480
Penalty (20%)	57,496

- (b) Section 21 (z) – The income of a person for a year of income derived from agro processing is exempt where;

- The person or an associate of the person has not previously carried on agro processing of a similar or related agricultural product in Uganda.
- Upon commencement of agro processing in Uganda, the person applies in writing to the Commissioner for a certificate of exemption which the Commissioner may issue within 60 days of receiving the application.
- The person invests in plant and machinery that has not previously been used in Uganda by any person in agro processing to process agricultural products for final consumption.
- The person processes agricultural products grown or produced in Uganda.
- The person regularly files returns as required under the Income Tax Act.
- The person regularly fulfils all the obligations under the ITA relating to the person's investment; and
- The person has been issued with a certificate of exemption for that year of income by the Commissioner.
- the certificate of exemption shall be valid for only 1 year.

- (c) Objections submission

- A person who is dissatisfied with a tax decision may lodge an objection with the commissioner within forty five days after receiving notice of the tax decision
- A person may apply in writing to the Commissioner for an extension of time to lodge an objection and the Commissioner may
- if satisfied with the grounds upon which the application is made, grant extension for such period as the Commissioner determines
- Grounds may include:
 1. Absence from Uganda.
 2. Sickness.
 3. Other reasonable cause and there has not been any unreasonable delay by the person in lodging the objection after the expiry of the stipulated time.

Solution 2

- (a) Computation of the partnership distributable profits for the year ended 31 December 2021.

	Shs '000'	Shs '000'
Profit before tax		215,975
Add back		
Partner salary	60,000	
Interest on capital - Ggulu	3,000	
Interest on capital - Byansi	2,000	
Repairs and maintenance of rented apartments	73,000	
Depreciation	25,300	163,300
Less		
Rental Income	585,000	
Interest earned on fixed deposit account (Gross)	83,375	
Depreciation allowance	26,200	(694,575)
Chargeable partnership loss		(315,300)

Partnership Profits attributable to the partners	Shs '000'
Partnership distributable loss	(315,300)
Less Partner salaries	(60,000)
Less Interest on capital	(5,000)
Residual loss to be shared	(380,300)

Sharing for each partner	Ggulu 3/5	Byansi 2/5	Total
Sharing ratio 3:2	Shs 000	Shs 000	Shs 000
Partnership distributable loss	(228,180)	(152,120)	(380,300)
Salaries		60,000	60,000
Interest on capital	3,000	2,000	5,000
Income (loss) by each partner from the partnership	(225,180)	(90,120)	(315,300)

Working 1 - Depreciation	Class 1	Class 2	Class 4	Total
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
	40%	35%	20%	
TWDV 1/01/2021	3,520	0	12,962	16,482
Additions				
Laptop	3,000	60,000		63,000
	6,520	60,000	12,962	79,482
Allowance	(2,608)	(21,000)	(2,592)	(26,200)
TWDV 31/12/2021	3,912	39,000	10,370	53,282

(b) Tax payable for each Partner

Rental tax is taxed separately on each partner in their profit sharing ratios.

Tax payable	Ggulu	Byansi	Total
	Shs '000'	Shs '000'	Shs '000'
Share of loss	(225,180)	(90,120)	(315,300)
Other income - Consultancy (23,000x 4,300)	98,900.0		98,900.0
Taxable loss from partnership	(126,280.2)	(90,120.2)	(216,400.4)
Tax payable (NIL because there is loss that is carried forward)	-	-	-
Tax credit due	14,835	16,824	

Tax credit – Mr Ggulu (WHT paid) = 15% x 98,900,000 = 14,835,000.

Tax credit Mr Byansi (PAYE paid) = (60,000,000- 4,920,000) * 30% + 300,000 =16,824,000.

Rental tax payable	Ggulu 3/5	Byansi 2/5	Total
	Shs '000'	Shs '000'	Shs '000'
RENTAL INCOME	351,000	234,000	585,000
20% allowable expenses	(70,200)	(46,800)	
	280,800	187,200	
Threshold	(2,820)	(2,820)	
Chargeable rental income	277,980	184,380	
Tax at 20%	55,596	36,876	

Interest on fixed deposit account is not to be included because the WHT of 15% deducted is final tax.

Dividends earned by Mr Ggulu from a listed company are not included because the 10% WHT is final.

Dividends earned by Mr Byansi from a private company are not included because the 15% WHT is final.

Solution 3

(a)

(i) Cost base of an asset

The cost base of an asset purchased, produced or constructed by the taxpayer is the amount paid or incurred by the taxpayer in respect of the asset.

Including incidental expenditures of a capital nature incurred in acquiring the asset.

And includes the market value at the date of acquisition of any consideration in kind given for the asset.

The cost base of an asset acquired in a non arm's length transaction is the market value of the asset at the date of acquisition.

The cost base of an asset where the asset is transmitted to a beneficiary on the death of a taxpayer is the consideration deemed to have been received by the person disposing of the asset.

Where a part of an asset is disposed of, the cost base of the asset shall be apportioned between the part of the asset retained and the part disposed of in accordance with their respective market values at the time of acquisition of the asset.

- (ii) Advice Mr Rukundo will be subjected to capital gains tax on the gain made on sale of the land (a business asset).

Cost base of 20 acres	Shs
Purchase price (5,000,000 x 20)	100,000,000
add incidental expenses of a capital nature	
Access road and intra road network	80,000,000
Electricity network	25,000,000
Water connection network	17,000,000
Fencing	10,000,000
Cost base	232,000,000
Cost base for 5 acres $(232,000,000/20) \times 5$	58,000,000
Cost base of 5 acres	58,000,000
Sales proceeds	75,000,000
Capital gain	17,000,000
Tax 30 %	5,100,000

(b)

- (i) circumstances where no loss or gain is recognized on disposal of a business asset
- A transfer of an asset between spouses.
 - A transfer of an asset between former spouses as part of a divorce settlement or bonafide separation agreement.
 - An involuntary disposal of an asset to the extent to which the proceeds are invested in an asset of a like kind within one year of disposal.
 - The transmission of an asset to a trustee or beneficiary on the death of a taxpayer.
 - The asset is deemed to have been acquired by the transferee for a consideration equal to the cost base of the asset to the transferor at the time of disposal.

(ii) Tax implications of sale of the home to an estates developer.

	Shs
Cost of land	10,000,000
Cost of building	60,000,000
Cost base	70,000,000
Value at transfer	260,000,000
Gain	190,000,000
This gain is not recognized but former spouse takes the property at market value	
On sale by former spouse	
Cost base	260,000,000
Proceeds	500,000,000
Capital Gain	240,000,000
Tax at 30%	72,000,000

Solution 4

(a) Computation of VAT payable or refundable

Input VAT

Particulars	Shs '000'	Shs '000' VAT (18/118)	Comment
Drugs and medicines	200,000	-	Zero rated
Cosmetics	58,000	8,847	Standard rate
Medical Examination gloves	180,000		Exempt
Sanitizers	233,000		Exempt
Infra red thermometers	59,000		Exempt
Motorised fumigation pumps	350,000		Exempt
Rent	10,000	1,525	Standard rate
Telephone Expenses	1,900	261	Standard rate but only 90% claimable
Salaries and wages	22,000		out of scope
Office furniture	15,000	2,288	Standard rate
Commercial transport hire	95,000	14,492	Standard rate
Office security services	6,000	915	Standard rate
Total Input		28,329	

Output VAT

Particulars	Shs '000'	Shs '000' VAT 18%	Comment
Drugs and medicines	320,000		zero rated
Cosmetics	15,800	2,844	standard rated
Medical Examination gloves	250,000		exempt
Sanitizers	135,000		exempt
Infra red thermometers	60,000		exempt
Old office furniture	6,500	1,170	standard rated
Motorised fumigation pumps	175,000		exempt
Total output		4,014	
Total Supplies	962,300		

Computation of tax payable /(refundable)

Apportionment Ratio	Shs '000'
B - Total amount of Taxable supplies	342,300
C- Total amount of all supplies	962,300
B/C	0.36
Amount claimable (28,329 * 0.36)	10,077
Offset /refundable (4,014-10,077)	(6,063)

(b) Objection and appeals process

- A person who is dissatisfied with a tax decision may lodge an objection with the Commissioner within forty five days after receiving notice of the tax decision.
- An objection shall be in a prescribed form and shall state the grounds upon which it is made and contain sufficient evidence to support the objection
- The Commissioner may upon application, extend the time for lodging an objection, in the case where the Commissioner is satisfied with the grounds upon which the application is made
- The Commissioner may consider the objection if the taxpayer has furnished a return in respect of default or advance assessment and has paid the tax due under the return together with penalty or interest due
- After considering the objection, the Commissioner may allow the objection in whole or in part and amend the assessment accordingly or disallow the objection in an "objection decision"
- The Commissioner has to serve the notice of an objection decision to the person objecting within 90 days from the date of receipt of the objection
- Where the objection decision has not been made by the Commissioner within 90 days, after the taxpayer lodged the objection, the taxpayer may by notice in writing to the Commissioner elect to treat the Commissioner as having made a decision to allow the objection

- The time limit for making an objection decision is waived where a review of the taxpayer's records is necessary for settlement of the objection and the taxpayer is notified
- A person dissatisfied with an objection decision may within 30 days after being served with the notice lodge an application with the Tax Appeals Tribunal (TAT) to review the objection decision
- A person dissatisfied with the decision of the TAT may within 30 days after being served with the notice of the decision lodge an application with the High Court to review the decision.
- The burden is on the person objecting to the decision to prove that the decision should not have been made or should have been made differently.

Solution 5

Tax implications of farm out

When there is a transfer of interest, only the recoverable / allowable costs are transferred.

(a) Determination of recoverable costs incurred and capital gain

	USD	Recoverable costs	Not recoverable
	'000'	'000'	'000'
Signature bonus (2 January 2015)	2,000		2,000
Geological surveys	12,000	12,000	
Oil well drilling	8,000	8,000	
Access roads	1,000	1,000	
Plant and machinery	16,000	16,000	
Transportation facilities	1,000	1,000	
Salaries and wages	14,000	14,000	
Rent for office space	3,000	3,000	
Leasing of equipment	20,000	20,000	
Fines and penalties	2,000		2,000
Donations to Charitable organizations	1,000		1,000
Commissions paid to third party intermediaries	4,000		4,000
	84,000	75,000	9,000

	USD
Consideration received	25,000,000
Cost base of the interest (75,000,000/4)	18,750,000
Capital gain	6,250,000
Tax payable 30%	1,875,000

(b) Petroleum Exploration Expenditure

- The cost of acquiring a depreciable asset is treated as belonging to a separate pool of depreciable assets.
- The depreciation rate applicable to the pool is 100%.
- The cost of acquiring an intangible asset is amortized at the same rate as assets of exploration expenditure i.e. (100%).
- Other exploration expenditure other than depreciable assets or intangible asset are allowed as a deduction in the year in which they are incurred.
- Petroleum Development expenditure
- If the cost of acquiring an intangible asset is petroleum development expenditure the useful life of the asset is the lesser of
 - ✓ The expected life of the petroleum development operations to which the asset relates; or
 - ✓ Six years
- A licensee shall be allowed a deduction on a straight line basis for petroleum development expenditure which is not an intangible asset which is the lesser of
 - ✓ The expected life of the petroleum development operations to which the asset relates; or
 - ✓ Six years
- If a depreciable asset for use in petroleum development operations is acquired or constructed by a licensee before the commencement of commercial production, depreciation allowance will apply to the asset as if it was acquired or constructed at the time of commencement of commercial production.
- If development expenditure is incurred before the commencement of commercial production the deduction or depreciation shall apply to the expenditure as if it was incurred at the time of commencement of commercial production.
- The amount of deduction for a depreciable asset for use in petroleum development operations shall be computed according to the formula
A x B/C where
A is the amount of the cost of the asset or the amount of the expenditure
B is the number of days in the period beginning on the date of commencement of commercial production and ending on the last day of the year of income in which commercial production commenced ; and
C is the number of days in the year of income in which commercial production commenced.
- Commencement of commercial production means the first day of the period of 30 consecutive days during which production is not less than the level of regular production delivered for sale as determined by Government as part of the approval of a development plan, averaged over not less than 25 days in the period.